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FINANCIAL TIMES

World Business Newspaper — TUESDAY NOVEMBER 21 1995 — D8523A

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Today's surveys
South Africa
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Mandela calls on Shell to exert more pressure on Nigeria

South African president Nelson Mandela told executives of Shell South Africa that the oil group was not doing enough to exert economic pressure on the Nigerian regime. Mr Mandela also called for a regional summit to discuss measures against Nigeria's military leaders, in the wake of the execution of nine minority rights activists this month. Page 16; Observer, Page 15; South Africa survey, separate section

Balkan peace talks drag on: Efforts to end the war in Bosnia ran into unexpected difficulties as haggling over territory dragged on beyond the deadline set by the US organisers of peace talks. The delay cast doubt over the viability of an elaborately crafted Bosnian peace process. Page 16; No-nonsense diplomacy in Dayton, Page 3

Poll boosts Spain's Popular party: The hopes of Spain's conservative Popular party for an absolute majority in next March's general election were boosted by its performance in Sunday's Catalonian regional polls. It raised its representation in the 135-member regional legislature from seven to 17. Page 2; Polls punish a powerbroker, Page 14

Greek premier is rushed to hospital

Greek prime minister Andreas Papandreou was diagnosed as suffering from pneumonia after being rushed to hospital. His condition was said to be "satisfactory". News of his illness triggered a wave of selling on the Athens stock exchange and put the drachma under pressure against the D-Mark. Mr Papandreou, 76, made a strong recovery after undergoing open-heart surgery in 1988, but has grown increasingly frail since leading the Panhellenic Socialist Movement back to power at a general election two years ago. Page 3

Italgas ahead in Hungary sale: A consortium led by Italian gas company, Italgas, emerged ahead of several other leading European energy companies as the top first-round bidder for Hungary's regional gas distribution companies. Page 17

Go-ahead for Russian elections: Russia's constitutional court cleared the way for parliamentary elections to take place on December 17. It refused requests to tackle alleged flaws in the country's electoral law. Page 2

EU set to back pact with US: European Union foreign ministers were set to endorse an ambitious co-operation pact with the US aimed at forging closer links, including the creation of a barrier-free transatlantic trade regime. Page 4

Kashmiri rebels offer deal on hostages: Separatist guerrillas holding four Westerners hostage in Kashmir offered to free two sick captives in exchange for a jailed militant.

End seen for US strikes: Two big US strikes at aircraft manufacturer Boeing and heavy equipment maker Caterpillar looked to be heading for a peaceful resolution. Page 8

Mitsubishi Chemical, Japan's largest chemicals company, is hiving off its plastics business into a Y170bn ($1.7bn) venture with Tonen Chemical, subsidiary of oil refiner Tonen. Page 17; Lex, Page 16

Three killed as aircraft hits building: Three people were killed after a small private aircraft crashed into an apartment building in heavy fog in the Los Angeles suburb of Fullerton.

Former Nazi extradited: Former Nazi officer Erich Priebke, 82, was extradited from Argentina to Italy to face trial for his alleged role in the massacre of 335 men and boys outside Rome in 1944.

Diana programme nets $1.5m for BBC: Payments to the BBC for the right to broadcast last night's television interview with the Princess of Wales outside the UK are thought to have exceeded £1m ($1.56m). Page 10; Editorial Comment, Page 15

Charity buys former Beatle's home: Former Beatle Paul McCartney's childhood home was bought by the National Trust, a charity better known for preserving the stately homes of Britain. The announcement came as the Beatles launched their first album in 25 years.

New print site for FT: The Financial Times today adds Madrid to its list of worldwide print sites. The presses of Lagar, the Madrid printer, join print centres in Frankfurt, Jönköping, Leeds, London, Los Angeles, New Jersey, Roubaix, and Tokyo.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,001.15	(+11.20)
NASDAQ Composite	1,044.93	(-0.10)
Europe and Far East		
CAC40	1,881.40	(-9.12)
DAX	2,218.30	(+17.02)
FT-SE 100	3,628.8	(+19.6)
Nikkei	18,383.82	(+232.66)

US LUNCHTIME RATES

Federal Funds	5¾%
3-mth Treas Bills: Yld	5.5%
Long Bond	108½
Yield	6.233%

OTHER RATES

UK: 3-mo Interbank	6⅞%	(6⁵⁄₈%)
UK: 10 yr Gilt	105¼	(105⅜)
France: 10 yr OAT	105.15	(105.46)
Germany: 10 yr Bund	101.05	(101.39)
Japan: 10 yr JGB	112.924	(113.134)

NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$16.82	(16.9)

GOLD

New York Comex (Dec)	$387.1	(387.5)
London: close	$386.4	(386.5)

DOLLAR

New York lunchtime		
£	1.556	
DM	1.40725	
FFr	4.8487	
SFr	1.1365	
Y	101.2	
London:		
£	1.5463	(1.5521)
DM	1.4125	(1.4048)
FFr	4.8677	(4.8515)
SFr	1.1402	(1.1373)
Y	101.33	(102.25)

STERLING

DM	2.1842	(2.1803)
Tokyo close:	Y 102.75	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.80	Oman	OR1.30	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y600	Philippines	Peso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM19	Kuwait	Fils625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L60,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

France raps EU partners for N-test 'hypocrisy'

Paris fears rift is threat to a common defence policy

By Lionel Barber in Brussels

France yesterday accused European Union partners of hypocrisy for failing to support its nuclear testing programme, escalating a row which has polarised the EU.

The French charge reflects alarm in Paris that anti-nuclear opposition is creating a division inside the EU which will jeopardise hopes of building a common European foreign and defence policy.

These fears grew last week after Nato members such as Italy and Belgium joined more pacifist countries led by the Scandinavians and Austria in supporting a UN motion deploring the French tests in the South Pacific.

Mr Hervé de Charette, French foreign minister, said in Brussels yesterday that France regretted the lack of solidarity between EU member states. "France has no intention of bending on issues it considers of national importance," he said.

Britain, Spain and Greece voted against the UN motion, while Germany abstained. President Jacques Chirac of France reacted last Friday by cancelling meetings with the leaders of Belgium and Italy – a rare censure within the EU club.

Mr de Charette said that days before the UN assembly vote EU partners had signed a text in Madrid which declared that British and French nuclear forces contributed to European security. "You've got to be very hypocritical to say 'white' one day and 'black' the following day."

Mr de Charette did not raise the UN vote inside the meeting of EU foreign ministers. Aside from his verbal barrage, he tried to contain the row over nuclear testing. "There is no crisis in the Union and there will be no crisis," he said.

EU member states which lined up against France in the UN vote declined to react to Mr de Charette's charges of hypocrisy, though several pointed out their stances reflected parliamentary sentiment in their own countries.

Mr Niels Helveg Petersen, Danish foreign minister, who is often outspoken in his anti-nuclear remarks, noted France's intention to sign and ratify an international treaty banning nuclear tests next summer.

But senior French officials said their government was drawing broader conclusions about the future of European defence co-operation as a result of the cleavage inside the EU over nuclear tests.

One diplomat complained that the union was no longer working as a unit of 15, and was encouraging the major powers such as Britain, France, and Germany to pursue diplomacy outside EU forums – as had occurred during the most recent stages of the Bosnian conflict.

Mr de Charette said it was obvious from the nuclear row that the discussions on defence at next year's inter-governmental conference would not be easily resolved.

Asked about the decision by Mr Alain Juppé, France's prime minister, to cancel a meeting with Mr Paavo Lipponen, the Finnish premier, over Helsinki's opposition in the UN vote, Mr de Charette said: "It is difficult to get together to exchange smiles with a friend and say everything is OK when you have just been dealt a low blow."

Daiwa to halve its foreign-held assets

By Gerard Baker in Tokyo

Daiwa Bank, under instructions by authorities in Japan and the US to curb its overseas operations, said yesterday it would cut its international assets by half within a year.

The plan, prepared at the behest of Japan's Finance Ministry, commits Daiwa, one of the country's largest banks, to implement drastic reductions in its lending, securities holdings and financial trading operations.

The ministry required Daiwa to submit the plan after US authorities had ordered it earlier this month to shut its US operations by February 2 for the alleged concealment of $1.1bn in bond trading losses at its New York branch.

Officials said the ministry was satisfied with the proposals. "We examined the measures and considered them to be drastic enough, so we accepted them," said one. The ministry had rejected an earlier plan by Daiwa as insufficiently draconian. The bank must complete implementation by October 1996 and report progress to the ministry every week between now and then.

Daiwa said assets related to its international operations, held at home and abroad, would be reduced by 50.5 per cent. The company's loan balance would fall by 30.1 per cent, while securities holdings would drop by 50.2 per cent. The bank added that it would also cut market-related business, such as bond dealing, at its offices abroad. The reduction in assets was equivalent to 11.1 per cent of Daiwa's total assets of Y18,300bn (£115bn) as of the end of March.

The bank did not say how the assets would be sold, but at least some of them are expected to be bought by other Japanese banks such as Sumitomo Bank, which has said it will assist Daiwa in withdrawing from the US.

The US and Japanese sanctions, imposed at a time of international concern over the health of Japan's financial system, were the most severe ever ordered against a leading Japanese bank.

Daiwa also faces a 24-count criminal indictment in a New York court for alleged fraud. The indictment is based on charges that executives of the bank were told of the bond trading losses in New York in late July but failed to report them to US authorities until September. Daiwa has said it will fight the indictment.

The bank, which must also submit a management reform plan to the Finance Ministry by January 15, has already said it will cut more than 2,000 staff, 25 per cent of its total, from its domestic and overseas operations. Daiwa's presence in international markets has not been as significant as many of its Japanese rivals, and the

Continued on Page 16

Ex-communist clinches power in Polish elections

Ex-communist Aleksander Kwasniewski yesterday clinched a narrow win over Lech Walesa in Poland's presidential elections. Mr Kwasniewski, above with his wife, Jolanta, won a 51.72 per cent share of the poll, which revealed a country divided Report, Page 16 Reuter

Revlon to follow Lauder to stock market

By Alice Rawsthorn in London

Revlon, one of the world's largest cosmetics companies, plans to go public early next year by floating a minority stake on the New York stock market.

The flotation of Revlon, which is controlled by Mr Ronald Perelman, the flamboyant US financier, follows shortly after that of Estée Lauder, one of its chief competitors which completed a $335m share sale in New York last week.

Revlon, which owns a string of best-selling cosmetics brands including Ultima skin care, ColorStay lipstick and Charlie perfume, has registered its intention to go public with the stock market authorities and has appointed Merrill Lynch and CS First Boston as underwriters to the issue.

It declined to comment on the value or size of the issue. However it is understood that Mr Perelman, whose master company, MacAndrews, Forbes Holdings also owns Marvel comic books and First Nationwide Bank of the US, will retain at least 80 per cent of the equity.

Revlon executives have in the past valued the group at around $4.7bn. However, New York analysts have estimated the highly leveraged company's value considerably lower at $2.7bn.

The share sale will be Mr Perelman's second attempt to take Revlon public since he acquired the company for $1.8bn in 1986 after one of the most controversial hostile takeover bids of the mid-1980s. He was forced to cancel plans for a 1992 flotation because of poor market conditions.

Revlon has had a turbulent time since the Perelman takeover. The company was founded in 1932 by the Revson brothers, Charles and Joseph, with a cosmetics chemist, Charles Lachman, who developed its first product, a revolutionary new nail polish.

It flourished in the buoyant post-war climate. Mr Charles Revson made his name as one of the most ruthless and dynamic executives in the US.

One of Revlon's great successes was Charlie, which became an international bestseller in the 1970s as one of the first perfumes aimed at young, liberated women.

However Revlon's fortunes

Continued on Page 16

Dow breaks 5,000 on hopes of end to US budget feud

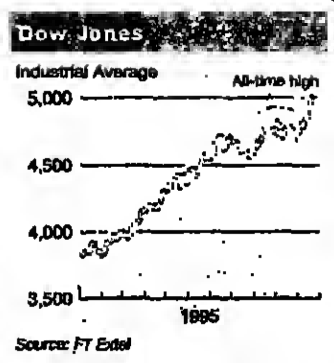
By Lisa Bransten in New York

The Dow Jones Industrial Average tantalised investors by breaching 5,000 points for the first time yesterday, only nine months after it climbed through 4,000, but twice beat a retreat in uncertain trading.

The index has risen on investors' expectations that the feud over the US budget would be settled, spurring the Federal Reserve to cut interest rates in December. The index ended last week just 10 points shy of 5,000.

However, news that the White House and Congress had agreed on Sunday to a stop-gap funding measure to re-open the government gave only a little fresh momentum to the market because the good news was already priced in. Adding to last week's upward push was Friday's expiration of options on shares and share indices, which caused investors to buy shares to unwind their positions.

At 1.30pm in New York yesterday the Dow was 5.78 points up at 4,995.73, having climbed as high as 5,003.68 earlier. The 30-year Treasury long-bond slipped ⅝ to 108⅛ to yield 6.237 as the bond market absorbed new supply from two Treasury department auctions scheduled for yesterday and today.



Ms Gail Dudack, chief investment strategist at UBS Securities, was bullish on the near-term prospects for the market once it moves through 5,000. "I think 5,000 is a psychological hurdle and once we get through that decisively then we'll probably move another 10 per cent relatively quickly," she said.

Despite yesterday's edginess, the market has been on a strong upward path since the start of the month after trading in a range around 4,800 for most of September and October as investors worried that third quarter earnings would not meet market expectations.

Ms Abby Cohen, US market strategist at Goldman Sachs, believes the market will be strong through next year, but warns that there are risks because the torrid pace of earnings growth seen through most of this year is likely to cool. Also she said, there is room for a sell-off if the final budget package does not meet expectations.

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Catalan poll aids right's national ambitions

By Tom Burns in Madrid

The hopes of Spain's conservative Popular party for an absolute majority in next March's general election have been boosted by its performance in Catalonian regional polls on Sunday.

"Now, without a doubt, José María Aznar [the PP leader] is the future prime minister of Spain," said Mr Aleix Vidal-Quadras, party leader in Catalonia.

The party, which had styled the Catalan poll as a test of opinion ahead of the general election, raised its representation in the 135-member regional legislature from seven to 17.

The surprise surge for the PP in what has traditionally been an area hostile to Madrid-based conservatives came at the expense of Mr Jordi Pujol, president of Catalonia's autonomous government since 1980. His moderate nationalist coalition Convergència i Unió (CiU) saw its overall majority disappear when it lost 10 seats to return 60 members to the Barcelona-based parliament.

Mr Pujol said he would form a minority government at least until the March general election.

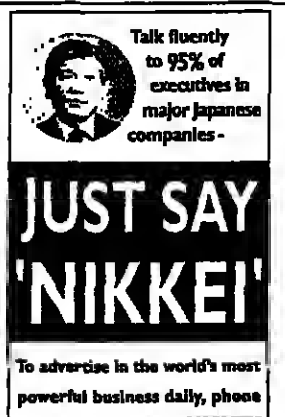
He blamed the CiU's poor results on the support which his party, until last summer, had given to the minority Socialist government in Madrid of Mr Felipe González, the prime minister. "This has been the first stage in the clarification of Spain's political landscape," the Catalan leader said, "and the second stage will come with the general elections."

The González government, which has been in power since 1982, has been increasingly discredited by judicial inquiries into charges that range from widescale embezzlement to allegations that it sanctioned a "dirty" war against members of the Basque terrorist organisation, Eta, in the 1980s.

Last month Mr González's draft budget for next year was defeated in parliament after the CiU joined the PP and other opposition groups to vote against it.

The Socialist party itself drew some comfort from the fact that its support in Catalonia fell less than expected. The party lost six seats to return 34, consolidating its position as the main political group in the Catalan parliament after the CiU. Opinion polls indicate that support for Mr González has waned considerably and that the PP holds a 10-point lead nationwide.

A non-binding parliamentary motion today will call on Mr González to call an immediate general election, but Mr Pujol said yesterday that the CiU would vote with the Socialists to defeat the motion because he had already been assured that Mr González would dissolve parliament when Spain's presidency of the European Union ends next month.



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Extremist landslide feared in December 17 poll

Russian judges give election go-ahead

By John Thornhill in Moscow

Russia's constitutional court yesterday cleared the way for parliamentary elections to take place as scheduled on December 17. It refused requests to tackle alleged flaws in the country's electoral law, a decision some moderate politicians fear may open the door for an extremist landslide in the polls for the 450-seat parliament.

The run-up to Russia's parliamentary elections has already been marked by a series of scandals.

These prompted a Supreme Court request for the Constitutional Court to review the validity of the country's electoral laws. But after a closed session of the 19 judges yesterday, the court said it would not consider the law's constitutionality. It gave no explanation for its decision.

The elections – only the third freely contested parliamentary poll in Russia this century – are seen as a critical test of Russia's nascent democracy.

But some moderate politicians and business leaders fear the electoral system will help communists and hardline nationalists, who are doing well in the polls and are expected to form the majority in the next parliament.

That could lead to a renewed clash between the executive and legislative branches of power, as occurred in 1993 when Mr Boris Yeltsin sent in armed forces to disband the Supreme Soviet.

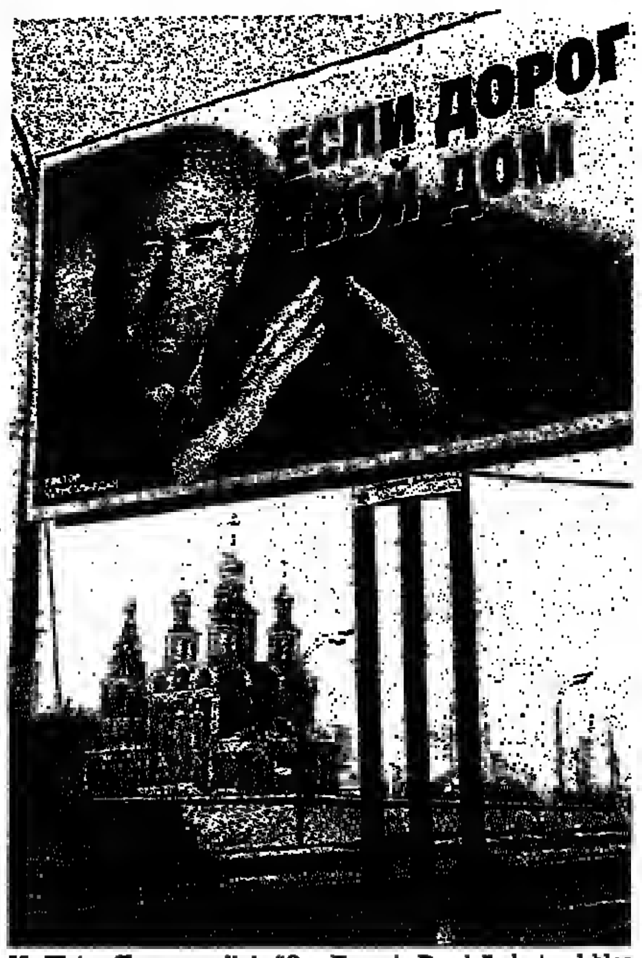
Half the seats in the Russian parliament are allocated by proportional representation, and a party must gain 5 per cent of the votes before it can win any seats. Mr Ivan Rybkin, speaker of the lower house of parliament, and leaders of several of the smaller electoral blocs had asked the Constitutional Court to remove this threshold.

They claimed the barrier's removal would allow wider representation of parties in parliament and thus dilute the extremists' influence.

Some politicians argued that uncertainty over the constitutionality of Russia's electoral law might undermine the incoming parliament's credibility. They fear that legal ambiguity could allow the president to dissolve parliament for technical reasons after elections.

Mr Nursultan Nazarbayev, president of neighbouring Kazakhstan, disbanded the local parliament earlier this year after the validity of the electoral law was questioned.

In the Chechen republic, elections for a new head of state, also scheduled for December 17, have been called into question as violence escalates. Chechen resistance fighters yesterday tried unsuccessfully to assassinate Mr Doku Zagayev, the Moscow-appointed head of the region.



Mr Victor Chernomyrdin's "Our Home is Russia" electoral bloc is promoting itself widely by poster Reuter

Ministry sees Nato threat to security pact

By John Thornhill

Russia's foreign ministry warned yesterday that Nato's plans to expand into eastern Europe could "blow up" the Conventional Forces in Europe (CFE) treaty, which forms the central plank of disarmament plans across the continent.

In the most direct linkage of the two security issues so far, an unnamed foreign ministry official told the Interfax news agency the CFE treaty would be rendered obsolete if Nato expanded eastwards.

"In case of, say, former Warsaw Pact members Poland, Hungary or the Czech Republic entering the alliance, the arms balance would change in Nato's favour," the official said.

In such an eventuality, Russia would consider that further compliance with the CFE treaty endangered its national interests and would exercise its right to withdraw from the agreement, the official said.

The foreign ministry's statement came three days after Russia technically breached the terms of the CFE treaty by maintaining too many armed forces in the Caucasus because of the Chechen conflict.

The CFE treaty, signed in 1990, envisaged the destruction of 50,000 pieces of military hardware, including tanks, artillery, and aircraft, and set various deadlines for its implementation.

But the foreign ministry official said the CFE treaty could be saved if it was amended to reflect national forces, rather than those of military blocs.

He suggested that it should be expanded from 30 to 53 signatories to include neutral states and former Soviet states which were now independent countries.

The escalation of anti-Nato rhetoric from Moscow was also reflected in a statement sent by the upper house of the Russian parliament to the Latvian legislature urging it not to "pander to the ambitions of the Nato leadership".

The three Baltic states of Estonia, Latvia, and Lithuania have all expressed a desire to disentangla themselves from their Soviet pasts and reorient themselves to the west by seeking membership of the European Union and Nato.

But, in what appeared to be a veiled threat, the Russian statement said: "The approach of the Nato military machine towards Russia's borders poses serious threats to its political, economic, and military security."

The statement from Moscow coincided with a visit to the Baltic region by Mr William Perry, the US defence secretary. Mr Perry discussed Estonia's application to join Nato with local officials yesterday.

But, in comments seemingly designed to placate Moscow's worries, he said a security structure for Europe could not be created by separating or isolating Russia.

Strikes and marches will test Juppé administration's reform resolve

Week of protests in France

By John Ridding and Andrew Jack in Paris

French students will demonstrate in cities across the country today in the first of a series of protests over the coming week against government policy and plans for important changes in the national welfare system.

The strikes and protests, spearheaded by public sector and transport unions, will show the strength of opposition to plans by Mr Alain Juppé, the prime minister, to cut the public sector deficit and reform the social security system.

Heralding a "black week" for the centre-right Gaullist government, French newspapers yesterday described the protests as a test of the Juppé administration's resolve following its announcement last week of plans to eliminate the FFr60bn ($12bn) welfare deficit by 1997.

In the first protest today, students plan to take to the streets in a sign of frustration over the slow pace and inadequate resources of reforms promised by Mr François Bayrou, education minister.

More serious protests are expected on Friday when unions representing the country's 5m public sector workers strike against planned welfare changes, including proposals to raise the period of their pensions contributions from 37.5 years to 40 years. The strike is expected to disrupt rail and metro transport and to affect state-owned companies such as Electricité de France. The Communist-led CGT union has called for a general strike on the same day, while Force Ouvrière, another of France's main unions, has called for a further stoppage on November 28.

Unions representing SNCF railway workers yesterday called for "a massive strike" on Friday and possibly beyond to demonstrate opposition to productivity and cost-cutting proposals presently under discussion.

But France's unions have been divided by the government's reforms. The CGT and Force Ouvrière were unable to agree a joint day of action. More significantly, the moderate CFDT, one of the biggest unions, has stopped short of calling for a strike. "The CFDT is united behind the need to counter the populism and demagoguery of FO and the CGT," said Ms Nicole Notat, the union's leader.

Mr Juppé claims the proposed welfare changes are "fair and necessary", arguing that the disadvantaged will not be affected by his deficit reduction measures and that 5m people will be exempted from a planned 0.5 per cent social income tax to repay accumulated social security debts of FFr250bn.

Separately yesterday, in a further element of the government's wide-ranging reform pledges, Mr Jean Arthuis, economics and finance minister, said he was considering removal of the 20 per cent exemption from income tax which applies to almost 20m taxpayers.

Poland draws up new lines of battle

By Christopher Bobinski in Warsaw

Mass privatisation and the country's constitution promise to become political battlegrounds in Poland as opponents of the former Communists seek to claw back territory lost in Sunday's presidential election.

Privatisation moved to the centre stage last Friday when the Senate, parliament's second chamber, approved a proposal by the fiercely anti-Communist Solidarity trade union for a national referendum on "enfranchisement" which aims at a national distribution of Czech-style coupons which can be used to purchase state assets.

Solidarity is arguing that present privatisation policies serve the interests of the former Communists, who now control the government together with their Polish Peasant party coalition partners, and that a fairer distribution of wealth can only come through a coupon system.

The referendum, scheduled for February, was opposed by Mr Wieslaw Kaczmarek, the privatisation minister, who told the Senate that disbursement schemes planned by the government would leave few assets for a coupon privatisation.

He said the government was planning to use remaining assets to capitalise pension funds, return property to former owners and pay compensation to pensioners and state employees who had suffered income cuts in 1991 and 1992 which were later declared illegal by the courts.

Tomorrow will see the start of the sale, for a nominal fee of 20 zlotys, of shares in 15 investment funds which have been given 414 state sector companies to manage under a long delayed mass privatisation scheme which is Poland's version of coupon privatisation.

The referendum on privatisation will be followed by another to approve a new constitution currently baing worked out in parliament. The Catholic church has said it is unhappy with provisions in the draft which open the way to liberalising Poland's strict anti-abortion laws. Solidarity insists that clauses safeguarding "Christian values" should be included.

The referendums give the hitherto divided opposition a chance to regain the political initiative and build an organisation capable of winning parliamentary elections scheduled for 1997.

Emu timetable worries banks

By Andrew Jack in Paris

France's leading banks fear the proposed timetable for European monetary union will be too short unless the deadline for deciding which countries will be eligible to join the single currency is advanced.

The French association of credit establishments, which includes all the country's commercial banks, is lobbying the European Commission to ensure that there is a clear indication by 1997 of which countries will be able to join.

They say they need at least two years' notice to make the necessary changes ahead of monetary union in 1999 – as currently planned.

Their fears have been intensified by last week's draft proposals from the Frankfurt-based European Monetary Institute (forerunner of the planned European central bank) which say that the eligibility of countries will not be notified until 1998.

Mr Pierre Simon, a director of Paribas and chairman of the EU Banking Federation representing European banks, said the EMI report left open several important questions which needed to be resolved swiftly.

The larger European banks would need to spend at least FFr1bn ($205m) each in new computer systems, staff training and other changes, he said. "It's not right if we take the risk in our accounts for nothing."

The European banking association has written to Brussels arguing that members need two or three years to adapt their systems for monetary union. Its counterpart in France argues that it needs a serious commitment before 1998 on which countries will be in the system.

The French banks are pressing for their governments within the system to do their utmost to ensure that all currency exchange transactions are quoted in the single currency from 1999, without any complex transition period. They also want all government bond issues quoted solely in the new single currency unit from the beginning of the period.

They stress further that the legal status of the single currency needs to be more clearly established over the coming months.

● The EMI will tomorrow present its report on the extent to which countries are meeting the convergence criteria for Emu, writes Andrew Fisher in Frankfurt. Under the Maastricht treaty, the institute is charged with monitoring countries' progress under the debt, budget deficit, inflation and other criteria. It is expected to conclude that Germany is continuing to meet these, but that others have difficulties on the debt and budget side.

German companies are more hesitant and sceptical about Emu than previously supposed, according to the Chambers of Industry and Trade, writes Peter Norman in Bonn. A poll of 25,000 companies found only 9 per cent thought the start of the third and final phase of Emu on January 1, 1999, was both "probable and desirable"; 36 per cent thought it desirable; 45 per cent were against. Only 24 per cent thought it probable the final stage would begin on time; 57 per cent thought it improbable.

E Europe 'hesitant on liquidation'

By Kevin Done, East Europe Correspondent

Countries in eastern and central Europe are failing to use existing bankruptcy legislation to reform loss-making state-owned enterprises, according to a study by Deloitte Touche Tohmatsu International, the accountancy group.

Special programmes devised to restructure large, ailing state-owned companies in the region have met only "limited success", its report says.

"Few state-owned enterprises deemed to be unviable have undergone liquidation," said Mr Richard Coatss, DTTI regional director for corporate recovery.

"There is still much to do and many costs to be borne, both financial and social, in the transformation of the state sector."

Some 70 to 80 per cent of state-owned enterprises in the region were insolvent according to western standards of insolvency, he said.

The most advanced use of bankruptcy proceedings had been in Hungary, where 10,000 cases had been finalised by last year, Mr Coates said. By contrast, only 30 proceedings had been completed in Slovakia and more than 100 each in Bulgaria and Romania.

In the Czech Republic only 282 proceedings had been finalised in the period, despite the fact that 2,274 petitions had been filed.

Insolvency legislation and proceedings were least developed in Albania, he said. From the former Soviet Union, only the Baltic states were included in the study.

Central and eastern European nations were seeking a balance between imposing financial discipline on loss-making enterprises and the immediate need to keep bankruptcy proceedings within reasonable limits, Mr Coates added.

The report, commissioned by the US Agency for International Development (Usaid), says that "tough decisions must be made". Relatively few efficient bankruptcy laws have been passed in most countries, and legal reform is not the priority.

Substantial investment has to be made in the system of courts, judges and trustees, or "even the best laws will not be applied successfully in practice".

Restructuring and Bankruptcy in Central and Eastern Europe. Available from Deloitte Touche Tohmatsu International (tel 44-171-936-3000, fax 44-171-936-3008).

EUROPEAN NEWS DIGEST

Bonn plans cash laundering curbs

Mr Manfred Kanther, German minister for home affairs, yesterday submitted detailed proposals to strengthen the law against money laundering and organised crime. New legislation is planned for early next year, after discussion by parties in Bonn's centre-right coalition government.

The proposals include stronger co-operation between banks and public prosecutors in cases of suspected money laundering; action to prevent insurance policies being used as vehicles for money laundering; and supervision of *bureaux de changes* by Germany's banking regulators. The ministry wants greater powers to tap the telephones of suspected money launderers and to provide immunity for banks and individuals involved in "sting" operations.

The ministry has also proposed expanding the catalogue of offences recognised as leading to money laundering. These would include credit fraud, blackmail, illegal gambling, dealing in stolen goods, illegal trade in radioactive products and trafficking in human beings. The offences were typically linked to organised crime. *Peter Norman, Bonn*

Nato arms 'used in abuses'

Human Rights Watch (HRW), the US-based pressure group, says that Turkey's security forces are using arms and equipment supplied by its Nato allies to commit serious and widespread human rights violations in their 11-year war against guerrillas of the Kurdistan Workers' party (PKK) in the mainly Kurdish south-east.

In a report published today, HRW details 29 cases in which Turkish troops used equipment ranging from US F-16 fighter bombers to British-mada Shorland armoured cars to attack civilian targets. In one attack, it says, Turkish air force F-16s killed 28 civilians when it bombed a village.

The HRW demands thet Turkey's Nato arms suppliers increase pressure on the security forces to respect human rights. It says the US alone supplies about 80 per cent of Turkey's weapons imports and that Turkey is the third largest recipient of US foreign assistance. Washington should halt all military supplies to Turkey "until it no longer engages in...gross human rights violations". *John Barham, Ankara*

Loan for Bulgarian railway

Bulgaria's run-down state-owned railway system has received a Ecu32.5m ($42m) rehabilitation loan from the European Bank for Reconstruction and Development (EBRD). It is part of an overall Ecu231m project co-financed by the World Bank, various export credit agencies and the European Union's Phare aid programme. The loan will finance high-priority track repairs and new rolling stock, signalling and management information systems.

It is the first loan under the EBRD export credit loan arrangement programme (Eclat), under which part of the credit will be used to co-finance some of the railway investment programme with export credit agencies. Eclat aims to mobilise additional funding from the agencies and facilitate future export-related financing. *Anthony Robinson, London*

Belgians jail GIA suspect

Mr Ahmed Zaoui, who Belgian authorities believe is second in command in the fundamentalist Algerian Armed Islamic Group (GIA), was yesterday jailed for four years by a Brussels appeal court.

But the court said he had served enough time, clearing the way for his extradition.

The court, overturning the Algerian's acquittal in a trial in September, jailed the 34-year-old former professor, already condemned to death in his own country, for his role in a criminal network set up in Belgium. Mr Zaoui and seven other North Africans stood trial on charges which included illegal possession and transport of arms and explosives. They all denied belonging to GIA. The group wants France to end support for the Algerian authorities, who cancelled a 1992 election which Moslem fundamentalists were poised to win. GIA has been blamed for bomb attacks in France which have killed seven people. *Reuter, Brussels*

EU foreign policy reform call

European Union foreign policy actions should be decided under normal Community procedures, with the Commission having sole right of initiative and with majority voting in the Council of Ministers where appropriate, according to a paper published yesterday by the Federal Trust, a pro-European British pressure group.

The paper is one of a series produced by a panel chaired by Lord Jenkins of Hillhead, a former president of the European Commission, in advance of next year's intergovernmental conference to revise the Maastricht treaty. It was drafted by Mr Simon Nnttall, a former director in "DG 1", the department of the Commission dealing with external policy.

The Maastricht treaty set up a special procedure for deciding the EU's "common foreign and security policy" (CFSP), which kept the initiative mainly in the hands of national governments and allowed joint actions to be decided by qualified majority only after a "common position" had been decided unanimously. In fact there have been few common actions so far.

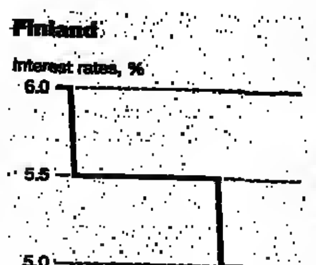
The paper attributes this to a "Gresham's law of CFSP, in which the worse (or less binding) procedure drove out the better".

It therefore proposes that the "common positions" category should be abolished. Instead, the Council would decide "orientations" by consensus under the CFSP procedure, but joint actions – such as recognition of a foreign state, election monitoring or civilian peacekeeping – would be subject to the rules and practices of the Community. The European Court of Justice, which at present has no jurisdiction in foreign policy, would be allowed to rule on procedural matters, though not on substance. *Edward Mortimer, London*

Security of the Union (Federal Trust Paper 4), available from BEBC (tel +44 1202-715555, fax 715556), price £7.95.

ECONOMIC WATCH

Third cut in Finnish rates



Source: Datastream

The Bank of Finland yesterday cut its main short-term interest rate for the third time in two months, in a further sign of its confidence that strong economic growth is not endangering low inflation. The cut reduces the bank's tender rate from 5.0 per cent to 4.75 per cent, for a fall of 1.25 percentage points since September. Finland enjoys an inflation rate of less than 1 per cent, even though the economy will grow by about 5 per cent in 1995. Lower food prices after the country's entry into the EU and the strong markka have kept inflation in check; the outlook for next year has been helped by a two-year national wage accord and a promised cut in employers' unemployment insurance contributions. The central bank expects underlying inflation to peak at about 2 per cent in the second half of 1996, before easing in 1997. *Christopher Brown-Humes, Stockholm*

■ Danish consumer prices rose 0.1 per cent in October from September. Year-on-year inflation slowed to 1.9 per cent from 2.1 per cent last month.

■ Italy's industrial producer price index rose 0.1 per cent in September from August, and 8.7 per cent over the same month last year.

Greek premier in hospital with pneumonia

Papandreou illness unsettles markets

By Kerin Hope in Athens

Mr Andreas Papandreou, Greece's prime minister, was yesterday rusbed to hospital with breathing problems after suffering a bout of inflnenza. News of his illness triggered a wave of selling on the Athens stock exchange and put the drachma undar preasura against the D-Mark.

Several bours after he was admitted to the Onassis Cardiac Hospital and put in intensive care, the hospital said Mr Papandreou had pneumonia, his condition was "satisfactory" and that "some improvement could be expected". The statement's delay prompted speculation that his condition was serious.

Mr Papandreou, 76, made a strong recovery after undergoing open-heart surgery in 1988, but has grown increasingly frail since leading the Panhellenic Socialist Movement back to power at a general election two years ago.

Yesterday be was due to chair a meeting of Pasok deputies, at which party rebels were expected to repeat their demand that he start procedures for choosing a successor.

Prices on the Athens stock exchange fell almost 8 per cent as Greek and foreign institutional investors unloaded shares on the news of the premier's illness, but finished the session only 2 per cent lower. Brokers said political uncertainty was driving the market down.

The central bank spent an estimated DM400m (£188m) to snpport the drachma against the D-Mark. The intervention proved successful – with the Greek currency closing at Dr165.51 comparad with Dr165.67 on Friday – but dealers said pressure would resume unless Pasok quickly resolved the leadership issue.

Despite his fragile health, Mr Papandreou has resisted pressure to appoint a deputy premier, governing with the assistance of an informal "kitchen" cabinet that includes his wife Dimitra, who runs his private office.

Earlier this year the prime minister quietly issued a decree appointing Mr Antonis Livanis, minister without portfolio, as his replacement if he were unable to govern. But analysts say that Mr Livanis, an elderly Socialist who started his political career as a legal adviser to Mr Papandreou, would be unable to keep tha unruly cabinet under control.

There are pressing economic policy problems to be settled, with the 1996 budget due to be finalised over tha next two weeks. Withont Mr Papandreou's support, Mr Yannos Papantoniou, the economy minister, will find it harder to face down populists in the cabinet who are calling for wage restraints to be lifted.

The succession procedure is clouded by controversy. Populist contenders to succeed Mr Papandreou, who are backed by grassroots party organisations, argue that the central committee should elect a new party leader who would take over as prime minister.

Tha pro-European faction wants Pasok's 170-member parliamentary group to vote for a new prime minister, who would then be confirmed at a special party congress.

No-nonsense diplomacy in Dayton

War lords at Bosnia talks have a reminder of US might, writes **Bruce Clark**

Dayton, Ohio, the no-nonsense smoke stack city of 500,000 which has played host to the Bosnian peace talks, is an eloquent symbol of the two things which have helped the US re-establish itself as the dominant power in the Balkans: air power and cash.

As the Balkan war lords made their way through the dull, misty landscape to the Hope Hotel conference centre – whose name honours the comedian Bob rather than any spirit of optimism – they never had to look far to spot the rows of F-16s, Starfighters and other fighting machines of the US air force.

The hotel and other buildings at the Wright-Patterson Air Force Base have provided, to quote the local newspaper, a "masonry-walled, plain-vanilla maeting place" which lacks the "warm lobby character" which the city'a finer hotels could have offered.

But the sheer size of the base known as Wright-Pat, which sprawls over three counties, must surely have been a sobering reminder of the US military power which lay behind Septembar'a bombing campaign in Bosnia and helped bring the parties to beal.

Daytonians pride themselves that almost every innovation in aviation history, particularly military flying, has been produced or refined in their city – from parachutes to wind tunnels to tha supersonic fighter, never mass produced, of which a couple of prototypes can be spotted at Wright-Pat.

Nor is the city's flair for the practical and mechanical confined to aviation: the cash register, invented by a small tradesman wbo thought his employees were cheating, is Dayton's other contribution to bumankind.

The sechusion and homespun atmosphere have helped prevent the parties from indulging in the televised histrionics they developed into a fine art during previous rounds of diplomacy.

The spectacular weekend resignation of Mr Muhamed Sacirbey, Bosnia's foreign minister – who fumed to the cameras that "I am not happy with everything that is happening but that is what compromise is all about" – was a reminder of how little dramatic news footage there has been in the first 19 days of talks.

Mr Sacirbey, who grew up in the US and plays a mean game of American football, is one of the few delegates for whom the steakhouses and neon lights of Dayton are a familiar sight.

To make the others feel at bome a few adventurous restaurateurs have put out notices reading: "Bosnians served free".

But however remote Dayton feels from Bosnia, the end of the cold war – a decisive factor in Yugoslavia's bloody dismemberment – can also be felt in the city.

Thousands of Daytonians, particularly in the field of defence electronics, are facing lay-offs as the US defence establishment is cut; locals say this could create a new class of "poor whites" whose already tense relations with the black community are likely to worsen.

For the moment, all that is just a small cloud on tbe horizon. If the blandness and apparent contentment of Dayton could be transported in small measure to the Balkans, the region would become a quieter but infinitely less interesting place.

Croatian President Franjo Tudjman (left) with Warren Christopher, US secretary of state, after Mr Tudjman's return to tha Bosnian peace talks at Wright-Patterson Air Force Base Reuter

EU's ministers finally in tune on broadcasting

By Emma Tucker in Brussels

Months of bitter argument over whetber to impose EU-wide quotas for locally made television programming ended yesterday wben ministers agreed to prolong the life of existing European Union broadcasting rules.

A decision to revert to the status quo terminated French ambitions to tighten quotas dictating the content of European broadcasts, but also frustrated German and British plans to scrap quotas altogether.

Channels broadcasting in the EU will continue to have to screen at least 51 per cent European-made programmes, bnt only "where practicable" – a loophole that allows many broadcasters to ignore the rules.

"All delegations made considerable efforts in order to overcome different positions and points of view," said Ms Carmen Alborch, the Spanish culture minister, who led yesterday's discussions in Brussels.

The decision is a blow to France's desire to limit US-made programmes on European screens. A majority of other member states felt obligatory quotas to be unworkable, particularly as new technology favours the development of "theme" channels.

Lord Inglewood, the junior British culture minister, said: "At the outset the proponents of quotas were riding high, but as tha process has gone along the tide has ebbed."

The scrapping of quotas will be an option when the EU's broadcasting regime – designed to allow broadcasters to transmit material wherever they like in the single market – is reviewed again, five years after the implementation of the latest revisions.

Aside from the issue of quotas, the only significant changes agreed yesterday include an extension of broadcasting rules to tele-shopping. A liberal regime will apply to channels devoted entirely to tele-sales, hut on other channels it will be restricted to three hours a day.

The revisions also clarify which countries have jurisdiction over the content of broadcasts. Ambiguities had led to clashes between member states.

Under the new rules a three-fold test will be applied to establish which member state has authority over a channel's content: where the company's beadquarters are located; where the main managerial decisions on programming are taken; and where the bulk of the workforce is located.

Ministers said they hoped these revisions could ba adopted before the end of the year.

However, the European parliament has yet to give its opinion. It is due to do so next month.

Mr Karel Van Miert, EU competition commissioner, bas agreed "in principle" with Lufthansa and Scandinavian Airline Systems on the terms of their alliance, an EU official said yesterday, AP reports from Brussels. The chairmen of both companies and Mr Van Miert agreed on most of their airline slot allocation problems during a meeting on November 10, but some key issues remained, officials said.

These included the choice of competing airlines to be given slots in Frankfurt, Dusseldorf, Stockholm, Oslo and Copenhagen during the morning and evening rush hours. The EU Commission official said EU experts would meet company officials to work out a formal proposal, which should be voted on by the Commission in late December.

NEWS: WORLD TRADE

EU ministers set to endorse closer US links

By Caroline Southey in Brussels

European Union foreign ministers were last night set to endorse an ambitious co-operation pact with the US aimed at forging closer political and economic links, including the *creation of a barrier-free transatlantic trade regime.*

Yesterday's debate followed intense lobbying by the EU Commission and the Spanish presidency to see the accord approved before next month's EU-US summit in Madrid, where it is due to be initialled by US president Bill Clinton.

Some member states, notably France, previously blocked the pact because of its strong commitments to trade liberalisation.

However, the accord was expected to *win approval after adjustments* had been made to soften the language on commitments to a free trade area.

The central plank of the blueprint is a commitment from both sides to create a "transatlantic marketplace" by steadily reducing or eliminating trade barriers to goods, services and capital.

But the draft text shows that there were still some concerns about the phrase "transatlantic marketplace," indicating that member states had not been able to agree an *umbrella* title for future trade relations.

The draft contained no reference to a free trade area, but committed both sides to a joint study on ways to facilitate trade in goods and services and further reducing or eliminating tariff and non-tariff barriers.

The pact makes clear that both sides remain committed to their multilateral obligations under the World Trade Organisation.

The joint EU-US plan commits both sides to a wide-ranging set of practical measures.

"We will co-operate both *jointly* and multilaterally to resolve tensions, support civil societies and promote market reforms," the pact says.

On the economic front, the plan includes co-operating on the accession of new members to the WTO, notably China and Russia, and completing multilateral accords on goods and services, telecommunications, maritime services and financial services.

It identifies a number of other "priority" areas, such as trade and *the environment, investment and* competition.

On labour standards the accord says the two sides will join efforts to "dissipate various misunderstandings" about the issue.

There is also a commitment to agreeing a customs agreement by *the end of* 1996 aimed at simplifying procedures and increasing investigative co-operation and a pledge to agree mutual recognition of certification and testing procedures as soon as possible.

The political aspects of the *pact* include co-operating in the reconstruction of former Yugoslavia, supporting democracy and market economies in the former communist bloc, *strengthening* joint efforts in preventive diplomacy and acting jointly in humanitarian projects.

Peugeot to launch 309 model in India

By Shiraz Sidhva in New Delhi

Peugeot of France launches its 309 model in India next month in the hope of securing a slice of the country's large and growing car market.

Peugeot, which is in collaboration with India's Premier Automobiles, has invested $24m in the $177.7m project to make the passenger car in India.

Premier has invested an equal amount in the project, with the remainder reserved for financial institutions and the public.

"PAL-Peugeot hopes to produce 60,000 cars each year by 1997 and capture 15 per cent of the market share," according to Mr Maitreya Doshi, PAL managing director.

"We expect PAL-Peugeot profits to grow to $28m in five years, half of which will come from Peugeot 309 sales," he said.

Premier has existing, separate deals to produce the Fiat Uno in agreement with Fiat and possibly also the Italian company's proposed new "world car" model.

Peugeot, part of the PSA Peugeot Citroen group, the world's seventh-largest car manufacturer, forecast the Indian market for medium-sized cars to grow to 500,000 by the turn of the century and said that pre-launch orders for the 309 had already reached 106,000.

Foreign manufacturers have been jostling for a share of the Indian vehicle market where demand by 2000 is predicted to reach 700,000-800,000 passenger cars.

Earlier this month, South Korea's Hyundai said it was finalising plans to make a medium-sized car of between 1000cc and 1300cc in India. Volkswagen and Eicher, the Indian commercial and farm vehicle group, are also looking to introduce the Golf to India.

Peugeot loan, see ICN

WORLD TRADE NEWS DIGEST

EU and Israel sign trade deal

The European Union and Israel yesterday signed a trade and co-operation accord within the EU programme to stabilise and bolster stability and trade in the Euro-Mediterranean region. Mr Shimon Peres, the acting Israeli prime minister, signed the deal which replaces a pact dating from 1975. The agreement was negotiated in July after EU foreign ministers negotiated their way around Spanish worries over imports of oranges, Austrian fears about apple juice imports, French difficulties with *foie gras* and maize and an agreement allowing Israel to sit on EU research and development committees.

Israel, which will be contributing to the EU research and development fund, has won a seat on the various committees but will not be allowed to vote. Israel will be among 12 non-EU Mediterranean countries taking part in a meeting with the EU's 15 nations in Barcelona on November 27 and 28 to set out a strategy for a zone of stability in the region and eventually a Euro-Mediterranean free trade area. *Foreign Staff*

WTO eyes competition policy

Mr Renato Ruggiero, director general of the World Trade Organisation, said yesterday there was an urgent need to examine the links between trade and competition policy with a view to setting multilateral competition rules within the WTO. In a speech in Rome, he said the globalisation of the world economy had increased the international impact of differences in competition policy norms and enforcement. Successive trade rounds had curtailed governments' ability to *restrict or distort international competition, directing* attention to private sector measures which had a similar effect but were not subject to global rules.

"If the international community seeks to negotiate rules that require countries to give rights to foreign companies, it is almost inevitable that the issue of international co-operation to deal with possible abuses of those rights will also arise," he said. Examples included export cartels and the use of competition policies to favour domestic firms. The WTO is already discussing competition rules in telecommunications services. However, Mr Ruggiero said there was a need for a more general look at how trade policy and competition policy could be made mutually supportive. *Frances Williams, Geneva*

Vietnam bans used imports

Vietnam has banned a wide range of second hand imports including equipment for the oil and gas, power, cement and food processing industries, the official daily Vietnam News reported yesterday. No reason was given for the decision, which took effect on November 1, but industry experts said the measure had been expected and was aimed at stopping *foreign investors from using Vietnam as a dumping ground for* second-hand technology. The Vietnamese media frequently criticises investors from Hong Kong, Taiwan, Japan and South Korea for using second-hand equipment in joint ventures as a way of reducing their capital contribution.

The report said equipment other than that listed in a decree issued by the Ministry for Science, Education and the Environment could be imported if the time lapse from the date of production to that of import did not exceed 10 years for equipment made in G7 countries and eight years for non-G7 countries. However some industry experts said the move was *too far-reaching* and did not take account of equipment that, although second-hand, might still contain some modern technology. *Jeremy Grant, Hanoi*

Contracts and ventures

■ Electrical engineering group Asea Brown Boveri has formed a joint venture with three Ukrainian companies to manufacture control and monitoring systems for Ukrainian power and industrial utilities. The company, ABB Monolit, is 51 per cent owned by ABB through its subsidiary Combustion Engineering Inc. of the US and 49 per cent by Monolit, *the leading manufacturer of missile* control systems in the former Soviet Union. ABB Monolit will receive a grant from the US government under the Nunn-Lugar programme for the conversion of defence industries to civilian use. ABB now has four companies in the Ukraine employing 1,500 people. *Foreign Staff, London*

■ Royal Dutch/Shell, the Anglo-Dutch oil giant, has formed a joint venture with three Romanian gas and petroleum distributors under which Shell will invest $42m in a liquefied petroleum gas project over the next three years. Shell Gas Romania, a joint venture between Butagaz International, a Shell subsidiary, and three regional companies, will extend the three companies' existing filling plants and improve distribution and other services. The three companies will contribute existing facilities in return for $10m equity in the new company. Shell will contribute $12m in cash and expects to invest a further $30m by 1999. *Virginia Marsh, Budapest*

■ Two Canadian telecommunications companies, Teleglobe and SaskTel have won a $600,000 contract from the Philippines to design an all digital national cable and microwave transmission network. They will also plan project financing and system management. The system, due to begin in 1997, will link existing regional networks. *Robert Gibbens, Montreal*

■ Zimmer of Germany has been awarded a contract by PT Luminary Polysindo, a company of the Gadjah Tunggal Group, to build a polyester plant at Karawang near Jakarta. The order amounts to about DM180m ($128m). Zimmer will provide the process technology, engineering and equipment and be responsible for the supervision of erection and start-up. Commissioning is due in the second half of 1997. *Foreign Staff*

Germans defer interest in Vietnam

Investors cautious despite improved relations, writes Jeremy Grant

When Mr Vo Van Kiet, Vietnam's *prime* minister, paid an unscheduled visit to the Hanoi hotel where Germany's Chancellor Helmut Kohl was staying to bid him farewell last Friday, diplomats read this as a sign that Vietnam was taking Germany's political overtures seriously.

However, Bonn's political initiatives were not matched on the business front. In spite of being accompanied on his four-day visit by the largest ever foreign business delegation to Vietnam – including top executives from Thyssen, Germany's biggest steelmaker, Hoechst, the world's largest chemical group, the engineering group Mannesmann and publisher Bertelsmann – Mr Kohl presided over little more of substance than a ground-breaking ceremony for a Mercedes-Benz vehicle plant.

Indeed, the closest German businesses came to signing anything concrete was a memorandum of understanding initialled by the engineering group Krupp for a feasibility study for a $1bn iron ore project involving Lonrho, the UK-based diversified trading group, Mitsubishi of Japan and South African mining concern Gencor.

Although German companies invested a record DM38bn (£18.6bn) abroad in the first six months of this year, only a tiny fraction is trickling through to Vietnam. Here, Germany ranks 28th in a list of foreign investment approvals, below the Philippines and China and shamed by its less economically powerful European rivals.

Even the showcase Mercedes-Benz joint venture does not run on money directly from Germany. The plant is funded through a Singapore subsidiary of Mercedes.

Until Mr Kohl's visit, the first by a German chancellor, the main factor dampening German investment had been political. A deal signed by the two governments in July clearing the repatriation of *40,000* Vietnamese living in Germany without residency permits took months to negotiate.

As the two sides disputed how best to settle the fate of the Vietnamese – mostly former *Gastarbeiter* (migrant workers) in the former East Germany and many with what Germany says are criminal records – Bonn made clear its displeasure at German businessmen developing significant ties with Vietnam, saying this should only move ahead once the political agenda was satisfied.

"Our ministry of the interior made life tough at the time," said one senior official at a large German industrial group on Mr Kohl's delegation.

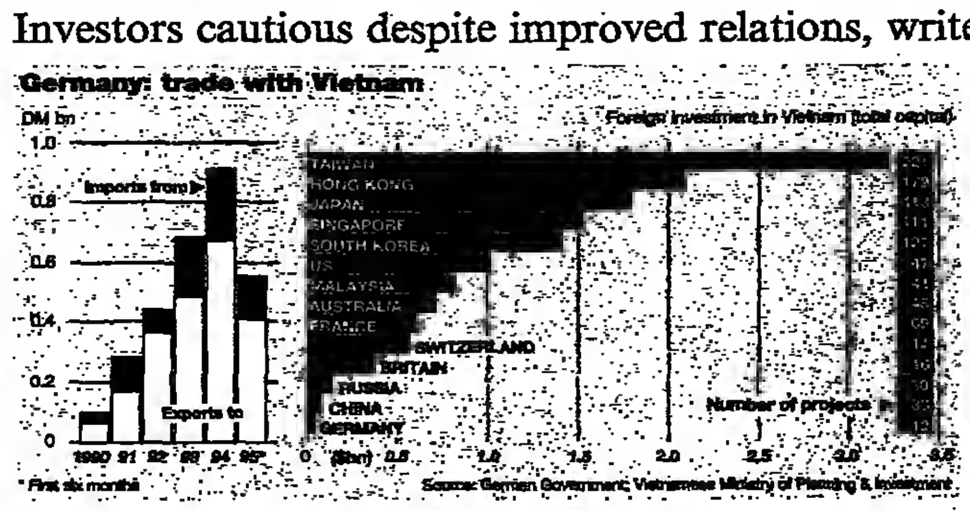
German businesses watched as their competitors in the European Union took their investment to Vietnam. At the same time Germany retained its position as Vietnam's fourth largest trading partner after Japan, Singapore and South Korea.

Although Mr Kohl told a news conference in Hanoi that Bonn was no longer linking investment with the repatriation issue – in spite of disappointing progress – other more fundamental factors continue to hold the Germans back.

Chief among them is anxiety over Vietnam's murky legal environment, one of the reasons that is also keeping the circumspect Japanese away. Particularly irksome for the Germans is a Vietnamese requirement that all decisions made at management board level in joint ventures must be made unanimously. "This we find difficult to accept," said Mr Heribert Wiedenhues, chairman of the executive board of Krupp Fördertechnik.

Analysts say that although it is clear Germany has a firm agenda to reclaim ground lost in Asia as a result of the last five years of preoccupation with East German integration, the onus still lies with Hanoi to ensure it attracts significant German interest.

"They have to improve the legal structure," said the senior official at the German industrial group. "You need to take a lot of deep breaths to do business here."



* First six months. Source: German Government; Vietnamese Ministry of Planning & Investment

Britain's Export Credit Guarantee Department (ECGD) yesterday said it had issued its first guarantee in support of British business in Vietnam by backing a DM225.7m ($162.3m) loan from Deutsche Morgan Grenfell for construction of a cement plant south of Hanoi, writes Jeremy Grant.

The loan is to finance the British content of a deal signed by KHD Humboldt Wedag, a subsidiary of Germany's Kloeckner Humboldt Deutz, for a 4,000 tonne per day clinker cement plant at Tam Diep, in Ninh Binh province. The total cost of the plant is DM490m.

ECGD would back 46 per cent of the project cost, said Mr James Neal, a director at Deutsche Morgan Grenfell. A separate loan worth Y11.8bn (£74m) for a Japanese component of the project to be undertaken by Nichimen Corp has been guaranteed by the Export-Import Bank of Japan, the Japanese Ministry of Trade and Industry and financing from Sanwa Bank and other Japanese institutions.

China to give full tariff cut list next month

By Geoffrey Crothall in Beijing

China will next month finalise a list of more than 4,000 *imported items which will be* subjected to an overall 30 per cent reduction in tariffs, a Chinese government official in Beijing said yesterday.

The cuts, announced on Sunday by Chinese president Jiang Zemin at the Asia Pacific Economic Co-operation forum in Osaka, are expected to go into effect on January 1, 1996, the *official from the State Economic* and Trade Commission said.

Once in effect, the average *tariff* for goods imported into China will be cut from about 35 per cent to about 24 per cent.

The final list of items remained under discussion at senior levels of the government but was expected to include products from all of China's major tariff categories, he said.

China's 31 tariff categories include; plant and animal products, foodstuffs, liquor and tobacco, minerals, chemicals, plastics, leather goods, lumber and wood bi-products, textiles, *shoes and apparel, bulk minerals* and metals, precious and semi-precious stones, machinery and appliances, optical and *medical equipment, armaments* and fine arts.

Vehicles and vehicle parts are also listed as a major category but government officials declined to say if tariffs would be lowered for foreign made cars, currently subject to a 300 per cent import duty.

China's commitment to reduce import tariffs and to permit foreigners to form joint venture trading companies on an experimental basis was cautiously welcomed yesterday *although many trade diplomats* said they wanted further details. Without knowing the details of the liberalisation programme, diplomats said, it was hard to assess its effect on China's foreign trade and Beijing's application to join the World Trade Organisation.

Some officials said China's entry into the WTO was more likely *after the promise of* import tariff cuts and more liberal trade, but they added the caveat that Beijing needed to do more before it could join.

"The measures appear to be positive. We are pleased," said a US diplomat. Washington has been spearheading the negotiations on China's WTO membership but has also firmly adhered to the criteria for admission and sought concrete concessions form the Chinese.

Earlier this month, Ms Wu Yi, China's foreign trade minister, told Ms Charlene Barshefsky, the US deputy trade representative in Beijing, that the *price of WTO accession* demanded by Washington was too high.

Among Washington's *demands are better access to* Chinese markets, especially for services, improved protection of intellectual copyright and more transparency in laws and regulations governing foreign firms. "The decision on China's entry is political as well as economic," said a western economist. "It will not be decided merely on economic criteria."

INTERNATIONAL ECONOMIC INDICATORS: **PRICES AND COMPETITIVENESS**

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.5	102.1	99.4	85.0
1987	105.6	100.7	103.9	96.7	76.2
1988	109.9	103.2	106.8	99.1	71.0
1989	115.2	108.5	109.9	101.1	75.1
1990	121.5	113.9	113.5	104.3	73.4
1991	126.6	116.3	117.3	107.8	74.0
1992	130.4	117.7	120.1	106.4	74.0
1993	134.3	119.2	123.1	107.7	76.3
1994	137.8	118.9	126.5	105.1	74.2
4th qtr.1994	2.7	1.3	2.4	-2.9	71.8
1st qtr.1995	2.8	1.7	2.1	-2.1	70.2
2nd qtr.1995	3.1	2.1	2.3	-1.2	66.5
3rd qtr.1995	2.6	1.8	2.7	-0.8	68.6
November 1994	2.7	1.3	2.6	-3.2	71.2
December	2.7	1.7	2.2	-3.2	72.6
January 1995	2.8	1.7	2.2	-3.1	71.8
February	2.9	1.7	2.0	-1.7	70.9
March	2.8	1.8	2.2	-1.4	68.2
April	3.0	2.1	2.3	-1.5	66.2
May	3.2	2.2	2.2	-1.2	66.8
June	3.0	2.1	2.3	-1.1	66.8
July	2.8	1.8	2.8	-0.6	66.8
August	2.8	1.3	2.8	-0.5	68.8
September	2.6	1.8	2.6	-0.7	70.1
October	2.8	2.1	2.7		

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.9	95.3	101.4	102.8	118.4
1987	101.3	92.5	103.1	100.1	122.9
1988	102.4	92.3	107.8	96.9	130.9
1989	105.1	94.2	114.0	96.9	123.9
1990	108.4	95.7	120.1	99.8	108.5
1991	111.8	96.8	124.3	104.0	114.5
1992	114.0	95.9	125.8	112.9	115.9
1993	115.4	94.3	125.6	118.9	133.6
1994	116.2	92.8	128.3	118.5	139.2
4th qtr.1994	0.8	-1.1	2.4	-4.3	139.4
1st qtr.1995	0.0	-0.8	4.0	-4.0	140.8
2nd qtr.1995	-0.1	-0.5	2.2	-3.4	153.7
3rd qtr.1995	-0.2	-0.7	3.5		138.8
November 1994	1.1	-1.2	3.7	-4.5	140.2
December	0.5	-0.9	1.4	-4.6	138.6
January 1995	0.5	-0.9	4.8	-3.2	137.4
February	0.0	-0.8	3.7	-5.2	138.4
March	-0.4	-0.5	3.4	-3.6	148.0
April	-0.2	-0.4	3.5	-4.5	155.3
May	-0.1	-0.5	3.5	-3.7	152.8
June	0.0	-0.6	0.8	-2.1	153.0
July	-0.1	-0.7	6.4	-0.3	147.3
August	-0.4	-0.7	0.3	-0.2	138.2
September	0.0	-0.8	1.7		130.2
October	-0.8				

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.8	97.5	103.8	103.8	107.4
1987	100.1	95.0	107.8	107.1	110.8
1988	101.4	96.2	112.6	106.9	109.8
1989	104.2	99.3	117.1	108.0	105.3
1990	107.0	101.0	123.5	110.3	107.8
1991	110.8	103.4	131.3	115.0	105.1
1992	116.5	104.9	138.2	121.5	107.5
1993	121.7	105.1	145.6	125.9	108.8
1994	125.1	105.7	150.8	118.1	107.4
4th qtr.1994	2.8	1.3	2.8	-7.6	108.9
1st qtr.1995	2.0	1.7	1.9		112.4
2nd qtr.1995	1.9	1.9	3.8		114.0
3rd qtr.1995	1.7	1.9			112.8
November 1994	2.8	1.3	n.a.	-10.0	108.9
December	2.5	1.6	n.a.	-6.4	109.0
January 1995	2.2	1.6	n.a.		110.7
February	2.0	1.8	n.a.		111.4
March	1.9	1.8	n.a.		114.8
April	2.0	2.0	n.a.		115.0
May	1.8	1.9	n.a.		113.5
June	2.0	2.0	n.a.		113.4
July	1.8	2.0	n.a.		113.9
August	1.7	1.8	n.a.		112.0
September	1.8	1.9	n.a.		111.9
October	1.8		n.a.		

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.8	103.4
1987	105.9	97.8	107.8	103.0	104.8
1988	108.8	102.8	111.1	104.1	102.1
1989	112.8	108.4	115.4	105.2	100.1
1990	113.5	107.1	120.6	109.8	103.4
1991	120.2	105.8	125.8	113.4	101.1
1992	123.1	104.0	130.3	115.6	104.7
1993	125.6	101.1	133.7	118.1	107.0
1994	127.7	102.5	136.7		106.5
4th qtr.1994	1.6	5.3	2.1	n.a.	106.8
1st qtr.1995	1.7	0.7	2.0	n.a.	106.4
2nd qtr.1995	1.6	1.1	2.0	n.a.	106.7
3rd qtr.1995	1.8	-0.2		n.a.	107.1
November 1994	1.6	n.a.	n.a.	n.a.	106.7
December	1.8	n.a.	n.a.	n.a.	106.2
January 1995	1.7	n.a.	n.a.	n.a.	105.7
February	1.7	n.a.	n.a.	n.a.	105.9
March	1.8	n.a.	n.a.	n.a.	107.5
April	1.6	n.a.	n.a.	n.a.	108.3
May	1.6	n.a.	n.a.	n.a.	105.8
June	1.5	n.a.	n.a.	n.a.	106.3
July	1.5	n.a.	n.a.	n.a.	107.0
August	1.9	n.a.	n.a.	n.a.	107.1
September	2.0	n.a.	n.a.	n.a.	107.3
October	1.8	n.a.	n.a.	n.a.	

■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.8	105.5	102.1
1988	118.5	106.8	118.4	109.7	100.9
1989	124.2	113.1	125.6	112.3	105.7
1990	131.8	117.8	134.7	118.8	112.6
1991	140.3	121.7	147.8	131.2	113.6
1992	147.7	124.0	155.9	135.5	110.0
1993	153.9	126.7	161.6	139.7	95.7
1994	160.0	133.5	167.0		93.7
4th qtr.1994	3.8	4.8	2.9		92.7
1st qtr.1995	4.4	8.5	2.6		89.9
2nd qtr.1995	5.5	8.8	2.3		87.7
3rd qtr.1995	5.7	8.0	3.8		92.9
November 1994	3.7	4.8	3.0	n.a.	92.7
December	4.1	5.4	3.0	n.a.	92.1
January 1995	3.9	5.8	2.8	n.a.	92.8
February	4.3	6.3	2.4	n.a.	91.8
March	4.9	7.5	2.8	n.a.	85.7
April	5.2	8.2	2.3	n.a.	84.0
May	5.5	8.0	2.8	n.a.	89.0
June	5.8	9.2	2.2	n.a.	89.8
July	5.6	8.2	3.5	n.a.	92.0
August	5.8	9.0	3.4	n.a.	93.7
September	5.8	8.7	3.9	n.a.	94.7
October	5.8			n.a.	

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.0	94.3
1987	107.7	104.8	116.3	106.8	94.5
1988	113.0	108.7	126.2	109.5	102.3
1989	121.8	113.9	137.2	115.0	101.7
1990	133.3	121.0	150.1	122.7	102.9
1991	141.2	127.5	162.4	129.7	106.1
1992	148.4	131.5	173.1	130.7	103.0
1993	148.7	136.7	180.9	130.1	95.1
1994	152.4	140.1	189.5	130.0	96.4
4th qtr.1994	2.6	2.5	5.2	-0.4	96.0
1st qtr.1995	3.4	3.8	5.0	1.8	94.2
2nd qtr.1995	3.4	4.2	4.7	3.0	91.0
3rd qtr.1995	3.7	4.5	4.3	3.8	91.0
November 1994	2.8	2.6	5.0	-1.2	96.1
December	2.9	2.8	5.8	2.1	95.9
January 1995	3.3	3.5	4.6	2.2	[illegible]
February	3.4	3.6	5.6	2.5	[illegible]
March	3.5	3.8	4.8	1.2	92.5
April	3.3	4.2	5.2	2.8	91.2
May	3.4	4.2	4.5	3.3	91.0
June	3.5	4.2	4.4	2.9	90.5
July	3.5	4.5	4.9	4.1	90.4
August	3.6	4.4	4.2	3.6	91.2
September	3.9	4.5	3.9	3.6	91.5
October	3.2	4.6			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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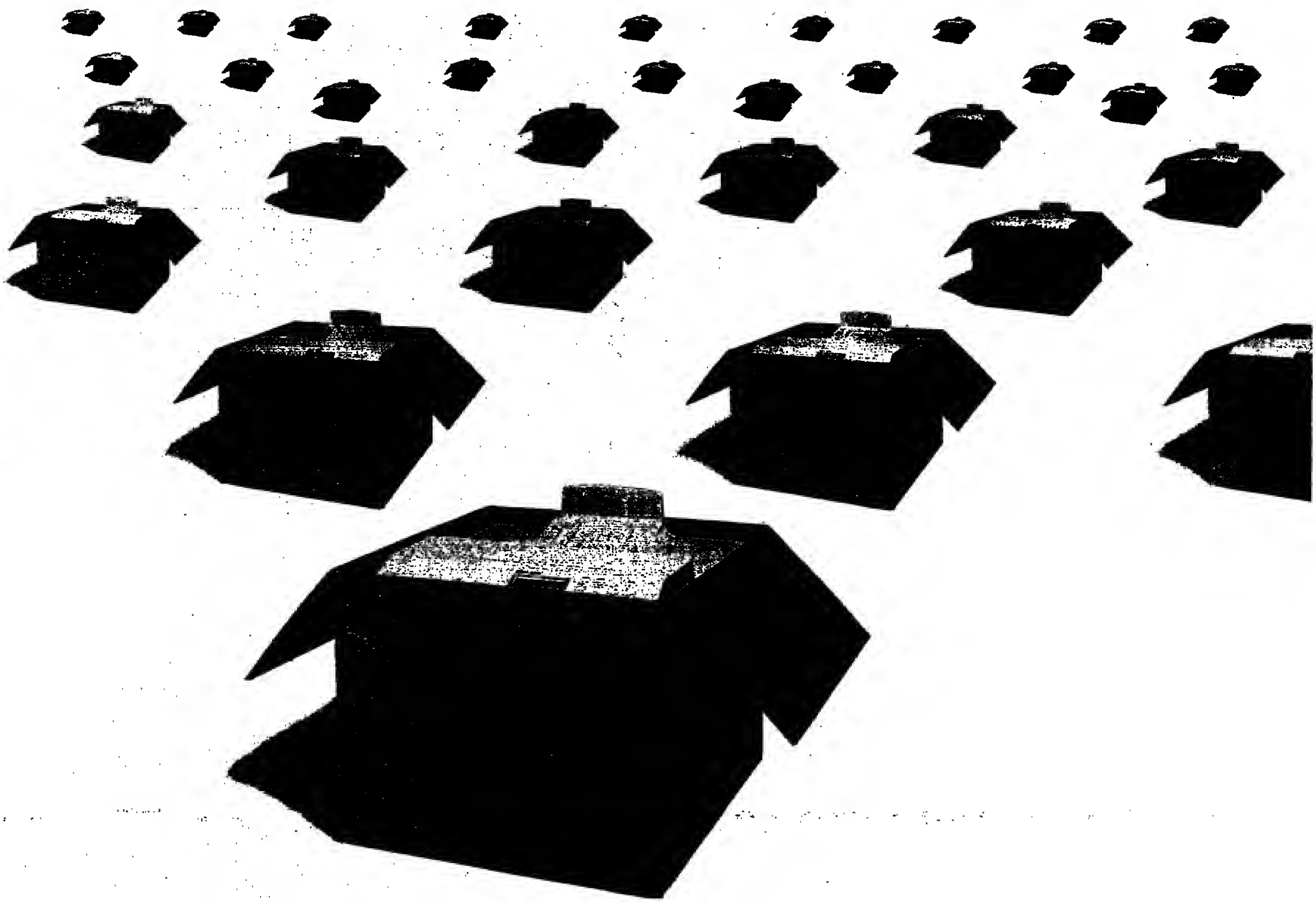

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Unesco eyes future on a tight budget

Other UN agencies are having to help with finance, writes Andrew Jack

Mr Federico Mayor, the director general of Unesco, the United Nations Educational, Scientific and Cultural Organisation, makes the best of the difficulties he faces.

Under the 12-year reign of his discredited predecessor, Mr Amadou Mahtar M'Bow, the organisation turned sharply anti-American and the US retaliated in 1984 by withdrawing. The UK and Singapore followed the next year, depriving the agency of 31 per cent of its contributions.

Yet Mr Mayor, forced to engage in extensive surgery to compensate, puts a positive light on the consequences.

"We were obliged before other agencies to undertake a lot of reforms," he says. He plans to publish a report next spring on the management and budgetary lessons he learnt.

Since the mid-1980s, the staffing of Unesco has been cut by a third to about 2,150 and its annual "regular budget" has remained stable at about $85m (£54.6m).

In an intriguing piece of accounting, the agency has nevertheless managed to increase total spending by heavily boosting its so-called "extra-budgetary" resources from other UN agencies and individual countries to more than $120m a year.

"Of course there is room for improvement," Mr Mayor concedes, relaxing in his office just ahead of the organisation's 50th anniversary celebrations last week.

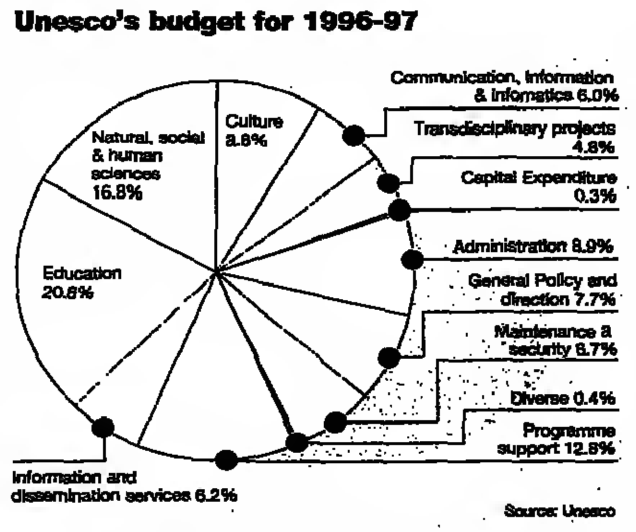
However, he emphasises thet Unesco's budget is no more than that of a medium-sized university.

His management efforts may well be starting to pay off. A letter from President Bill Clinton last week suggests the US no longer has any ideological objections to rejoining the organisation, although it is prevented from so doing in the short term because of budgetary constraints.

Although Unesco became an easy and partly justifiable target for criticism over profligacy and mismanagement since the 1980s, the UK National Audit Office and the US General Accounting Office both carried out reports which failed to find any evidence of corruption.

Mr Mayor is reluctant to criticise his predecesaor too directly. After all, it was under Mr M'Bow that many budget cuts took place. But Mr Mayor has certainly radically changed Unesco's priorities since he took over in 1987.

Unesco's budget for 1996-97



Source: Unesco

One of the principal reasons for the US withdrawal was the so-called "new world information and communication order", introduced under Mr M'Bow, which to many smacked of an attempt by the former Communist bloc and some Third World countries to introduce media censorship.

Ironically, Unesco has placed great emphasis in the last few years, instead, on stressing the importance of media freedom, and the World Press Freedom Committee, vocal in calling for US withdrawal as a result of the old-style policies, is now recommending that the country becomes a member again.

"The problems in the past came because the Unesco constitution was not fully respected," says Mr Mayor. "Our first article says thet we must guarantee the free flow of information and ideas. This is our basic commandment."

Unesco's best known work has probably been the protection of cultural heritage sites around the world, which now number some 400, and include such famous activities as co-ordinating the rescue of the Abu Simbel temple in Egypt at the time of the construction of the Aswan dam.

But Mr Mayor argues "the most important monument we must preserve is children", in a reference to his priority on education. He believes that population pressure is the biggest challenge facing the world and that education of women is the best way to cut fertility and ease the problem.

He says his campaign of persuading the world's most populous nations to agree to spend 6 per cent of gross national product on education each year by 2000 is one of his proudest achievements. "Once education improves, there will be less migration, fewer environmental threats, and better conditions in urban slums."

As Unesco commemorates its foundation, he says the most important action is to remind its 185 member nations of the founding principle: that, in the words of the poet Archibald Macleish "since wars begin in the minds of men, it is in the minds of men that the defences of peace must be constructed."

Flawed Tanzania election tests donors' faith

Michela Wrong on the limits and dilemmas of backing democracy

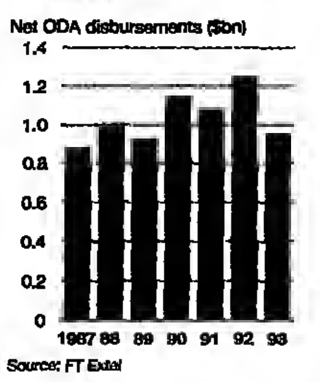
Over the next few days Tanzania will install its first head of state elected under a multi-party system. But Benjamin Mkapa's triumph, a foregone conclusion since much of the opposition boycotted polls at the weekend in Dar es Salaam, is hardly an occasion for celebration.

For Tanzania's experience has shaken faith in the country's capacity to implement multi-party politics, and raised questions about the role of international observers and the dilemma faced by donor nations in danger of turning a blind eye to flawed elections in their enthusiasm for the introduction of democracy in formerly one-party states.

The exercise got off to a bad start on the island of Zanzibar, where counting was marred by statistical anomalies and evidence of tampering with return forms strong enough to warrant a boycott of the ruling party candidate's inauguration ceremony by most diplomats.

On the mainland, the process almost collapsed entirely as the electoral commission, in spite of receiving $20m in donor funds, failed to get ballot boxes, officials or voting papers to booths on time amid what a Commonwealth group called "chaos and confusion".

Tanzania



Source: FT Extel

The ruling party, Chama Cha Mapinduzi (CCM), argued that opposition demands for new commission staff meant personnel had no experience of running elections. But the worst problems occurred in opposition strongholds, fuelling suspicions that the results had been rigged.

"What has become very clear is that, in a close contest the CCM will not relinquish power," said Professor Rwekaza Mukandala, political science lecturer and head of a monitoring unit. "I don't think there's anyone out there who believes these elections were free and fair."

If, after 30 years at the helm, the CCM was ready to bend the rules to cling to power, 450 observers working under the UN umbrella did little to thwart it.

They prematurely ruled the first stage of voting on Zanzibar "free and fair", and failed adequately to monitor the count. As confusion on the mainland forced polls to be extended or repeated, most international observers overran their budgets and had to leave, work unfinished.

And as the full extent of what many diplomats privately called a débâcle emerged, the UN first kept silent and then issued a bland statement recommending the authorities "correct anomalies".

Some opposition supporters see the ineffectual performance of the international community during the torturous month-long process as a carryover of the reluctance to criticise former president Julius Nyerere displayed by many western governments during his time in office.

Having pushed the CCM to legalise party politics, the donors, say local critics, opted to accept the *status quo* rather than challenge the CCM's exercise in democracy.

Whether the donors, who provide up to 70 per cent of Tanzania's national budget, will review their position will become clear only once the dust has settled and they take stock of the extent of electoral abuses.

Last year Scandinavian countries, Tanzania's most generous donors, suspended $35m in balance-of-payments support after revelations that donor-funded foreign exchange schemes were being abused and huge amounts of import duty not collected. They demanded the prosecution of corrupt government officials and their businessman friends.

Opposition leaders such as Augustine Mrema of the NCCR Mageuzi (National Convention for Construction and Reform) party, who won enormous support for his anti-corruption campaign, now want donors to slash aid further, arguing that a party retaining power with such suspect methods is in no position to eliminate graft.

Last week diplomats were saying it was too early to decide about aid and playing down the extent of the problems.

Officials of the International Monetary Fund said they were waiting for a new government to be named before negotiating a $200m structural adjustment facility.

But in a sign of what may be to come, the Dutch broke ranks and resumed balance-of-payments support.

Weakening the donors' resolve is the awareness of how desperately needed the aid is. One of the world's seven poorest countries, Tanzania is enjoying something of a mini-boom, with a 3.5 per cent growth rate.

"This fiscal year Tanzania can afford to pay its foreign debts, its civil servants and that's it. There's no money left for schools, hospitals or anything else," says a diplomat. "You don't kick a man when he's down."

INTERNATIONAL NEWS DIGEST

SA hails rise in credit rating

South Africa yesterday welcomed the improvement in its sovereign credit rating from Standard & Poor'a Rating Group, although it still has not achieved the investment grade rating awarded by two other groups. Mr Chris Liebenberg, finance minister, said the new rating "demonstrates confidence in South Africa's economic policies and political stability following the transition to democracy".

Following a visit to South Africa in August, S & P has raised its long-term foreign currency rating from BB to BB Plus; The long-term local currency rating was BBB Plus. S & P praised the government's disciplined policies but its creditworthiness was constrained "by the formidable challenges of reforming the long-protected economy and ensuring steady reductions in the high budget deficit, prerequisites to the critical objective of significantly raising the sustainable level of economic growth". *Roger Matthews, Johannesburg*

Observer, Page 15; South Africa survey, See separate section

Israel may bar extremist Jews

Mr Ehud Barak, Israel's interior minister, said yesterday he would review police files to consider barring Jewish extremists from entering the country following Prime Minister Yitzhak Rabin's assassination.

"I may consider preventing (the entry of) these extreme elements on a case-by-case," Mr Barak said.

Under Israel's Law of Return, foreigners who can trace Jewish roots to at least one grandparent can become immigrants and claim Israeli citizenship. But the law gives the interior minister discretionary powers to keep certain elements out to preserve public order. A rightwing Jewish law student shot Mr Rabin at a Tel Aviv peace rally on November 4. At least eight other rightwing suspects were arrested for alleged ties to the murder. *Reuter, Jerusalem*

Gadaffi castigates Arab world

Libyan leader Muammar Gadaffi, in a speech reflecting his deepening isolation within the Arab world as well as the west, says he no longer trusts any Arab ruler. "The Arab nation, from the (Atlantic) Ocean to the Gulf, is now occupied, and not independent. It needs a long fight to free the Arab nation, the land and the honour." Col Gadaffi said in a speech carried by the official Jana news agency at the weekend.

"The Arab rulers have handed over the Arab countries to the enemy. Therefore, we no more trust any ruler," he said in what appeared to be an unprecedented attack on all Arab leaders. Col Gaddafi singled out Egypt, Saudi Arabia and the other Gulf countries, Syria, Morocco, Tunisia, and the Palestinians. *Reuter, Tunis*

Boost sought for UN Iraq team

The head of a United Nations team overseeing Iraqi disarmament said yesterday he was touring Gulf Arab states to shore up political and financial support for his mission and end a persistent "headache" about funding. "If we don't get the funds we will have to close our work and that would be very disastrous for security in the region," Mr Rolf Ekeus, head of the UN Special Commission on Iraqi disarmament, told a news conference in Kuwait.

The commission, set up after the 1991 Gulf war ended a seven-month Iraqi occupation of Kuwait, is overseeing UN demands that Iraq scrap its chemical and biological weapons and ballistic missiles with a range greater than 95 miles (150 km). *Reuter, Kuwait*

Hawke re-emerges to back striking miners

By Nikki Tait in Sydney

Mr Bob Howke, the former Australian prime minister, yesterday made a roaring comeback as the working man's champion as be pleaded the case of the country's trade unions in their dispute with CRA, the mining group, before a full bench of the Industrial Relations Commission.

But, after 12 hours of arguments, tbe arbitration body said it was adjourning, and would leave the matter unresolved until today. The nation's coal miners remained out on strike in support of employees of CRA's Comalco subsidiary at Weipa, northern Queensland, where it has large bauxite operations.

Efforts were under way by the Australian Council of Trade Unions – under IRC pressure – to persuade the striking miners to rethink. Maritime employees, who had also gone on strike in a show of solidarity, went back to work on Sunday.

Hawke: virtuoso performance

The re-emergence of Mr Hawke – ooe-time president of the ACTU, but portrayed as a bitter and tarnisbed figura since surreodering the prime minister's job nearly four years ago – came in a virtuoso performance, played to several hundred people.

His forceful advocacy won applause from hard-core Labor supporters, and seemed guaranteed to undermine the position of Mr Paul Keating, the current prime minister. Mr Keating predicted last Thursday that the Weipa dispute was within hours of being solved – only to see it escalate into a national stoppage.

In his three-hour presentation, Mr Hawke invoked the shearers' strikes of the late 1890s, words of Abraham Lincoln, and thoughts of Adam Smith, the British economist, to bolster his case that Australian workers should have the right to bargain collectively, and should not be discriminated against for so choosing.

"What is at stake is mnch more than the resolution of an industrial dispute. What has been involved here is nothing less than an attempt by the company to overturn, not just the industrial relations system, but the social fabric of Australia," he claimed.

In reply, lawyers for CRA's Comalco snbsidiary, which manages the banxite mining operations at Weipa, argued that the desire to sign workers to individual staff contracts, rather than reach collective agreements, rested on a belief that this improved the way work was performed – and hence justified a higher wage.

The minority of Weipa employees who have not signed individual contracts claim that they are paid up to A$20,000 (US$15,000) a year less for similar work than colleagues who signed individual contracts.

E Asian currency war chest set up

Simon Holberton on a new step towards central bank co-operation

Central bankers usually eschew the limelight and when they do not one immediately cooclodes that they are trying to pull the wool over the markets' eyes. But at a meeting of 10 bank governors and deputy governors in Hong Kong yesterday the idea of greater regional co-operation among central banks received a big public push forward.

The tangible evidence of this was the exchange of a series of bilateral securities repurchase ("repo") agreements between the monetary authorities of Australia, Hong Kong, Indonesia, Malaysia and Thailand. These agreements give participants access to immediate cash to help defend their currencies in times of market stress.

The size of the "repos", which enable cash to be delivered against the security of US Treasury bonds, are not large in monetary terms – they are believed to allow each bank to mobilise between US$500m and US$1bn – but Mr Joseph Yam, chief executive of Hong Kong's monetary authority, says they represent the first concrete step towards a more formalised relationship between Asia's central banks. "I expect this co-operation to continne and strengthen in the months and years ahead," ha said.

In spite of Mr Yam's optimism, it was clear from yesterday's meeting that the region's unity of purpose still has some way to develop. This was driven homa by the absence from the meeting of Singapore ("they couldn't find time to come," Mr Yam said) and the exclusion of tha Philippines from the initial tranche of "repo" agreements. The latter omission – which Mr Gabriel Singson, tha Philippines central bank governor, says will be remedied by the end of the year – also raised questions in the minds of economists about the exercise.

"It is noteworthy that the weakest central bank [the Philippines peso has been under considerable pressure recently] in the region was not invited to join, given that they were pushing for these agreements in tha first place," says Mr Simon Ogus, economist at SBC Warburg, an investment bank, in Hong Kong.

EAST ASIA'S MONETARY MIGHT

	Emeap	EU
Population (m)	1,726	369
GNP* – 1993	$7,615	$6,171
Average growth 1992-94	6.7%	1.1%
National saving ratio (average)	35.0%	18.2%
Foreign exchange reserves	$388bn	$343bn

*Calculated on the basis of purchasing power exchange rates

Emeap = Executive Meeting of East Asia and Pacific Central Banks.
Members: Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand

Source: Reserve Bank of Australia

In spite of the scepticism in the markets, the growing attractiveness of Asia as an investment location for professional western investors has sensitised Asia's central bankers to the need for more co-operation. Many were unsettled, and annoyed, at the beginning of the year when problems with the Mexican peso overflowed to Asia and many of the region's currencies suffered speculative attacks.

Although the participants at the meeting yesterday took some pride in the fact that they held between them some $403bn of reserves, their communiqué noted that in order to "maintain currency stability and improve the integrity and stability of the banking system" there was a need for closer ties.

Many central bankers would argne, however, that there is more to regional co-operation than currency market intervention, even if the arrangements grew out of Asia's dose of Mexican fever at the beginning of the year. Yesterday Mr Yam said there were many areas of mutual interest which needed investigation and a co-ordinated policy approach. He cited banking regulation, the development of Asia's capitel markets (particularly the debt market), and what he called "financial infrastructure", such as the introduction of a "real time" bank payments system, which would reduce credit risk by allowing immediate electronic settlement.

Mr Yam noted that Asia had both high levels of savings and a big demand for foreign investment. "Are financial markets, banks, and equity markets adequately performing the role of channelling savings into investment? Perhaps financial markets are not as developed as they are in the UK or New York because there is a lack of market integrity. These are some of the things we want to talk about."

Mr Bernie Fraser, governor of the Reserve Bank of Australia, and Mr Yam are believers in a more formal structure in which central bankers can talk about and plan initiatives of common interest. In September Mr Fraser suggested such a multilateral institution could be modelled on the Basle-based Bank for International Settlements, which groups the central banks of the Group of Ten leading industrial countries plus Switzerland.

The reasons put forward yesterday by bank governors for greater regional co-operation bore more than casual resemblance to those advanced by Mr Fraser. What was lacking, however, was his advocacy of an institution in which this activity could be pursued.

Within Asia the inelegantly named Executive Meeting of East Asia and Pacific central banks (Emeap), first established by a Bank of Japan initiative in 1991, may fit the bill. It comprises most states lying between Tokyo and Sydney – with the exception of Taiwan, Vietnam and Brunei, bnt including China and Hong Kong – and appears to have developed credibility among participants.

Central bankers discussed this yesterday, but reached no conclusions. Mr Yam said the option of existing co-operative arrangements into a multilateral institution – provided there were safeguards against it becoming a large bureaucracy – had not been ruledout.

Lessons from Asia, Page 14

ASIA-PACIFIC NEWS DIGEST

Japan and US agree on troops

The Japanese and US governments are committed to maintaining troop levels in Japan to preserve regional and global security, a draft joint statemeot indicates. The document, due for release in Tokyo yesterday but delayed because President Bill Clinton cancelled his visit, specifies no eut in the US military presence on the southern island of Okinawa, which hosts about three quarters of US military facilities in Japan.

The leak of the draft could unsettle the fragile coalition of Mr Tomiichi Murayama, the prime minister, which has been under pressure to reduce the military presence in Okinawa after the alleged rape of a schoolgirl by US servicemen. The statement stipulates that 100,000 US troops be maintained in east Asia, including 47,000 in Japan, despite the end of the cold war. Mr Joseph Nye, US assistant defence secretary, confirmed in Tokyo that a review of bases in Okinawa would give priority to amalgamation and consolidation within the island rather than transferring them. *Kyodo and Reuter, Tokyo*

Arabs suspected over bomb blast

Pakistani officials were yesterday viewing Arab gunmen based in the country's North West frontier province as prime suspects in Sunday's bombing of the Egyptian embassy in the capital, Islamabad. As Egyptian security staff arrived to investigate, immigration officials were keeping a close eye on Egyptian nationals leaving Pakistan.

The blast has come as a shock to Pakistan's security establishment. Many officials had considered it virtually impossible for anyone to bring up to 500 pounds of explosives – the amount used in the bombing – into Islamabad.

During the past two years the government of Ms Benazir Bhutto, the prime minister, has tried to project Pakistan as a "moderate Islamic state". Hundreds of Arab gunmen have been forced to leave the country, while up to 20 have also been extradited to face criminal charges in other countries. In the past many gunmen have crossed into Afghanistan and sought protection from one of the many Islamic mujahideen groups in that country, only to return to Pakistan when the pressure has eased. *Farhan Bokhari, Islamabad*

Sri Lankan troops enter Jaffna

Sri Lankan government troops yesterday marched into the Tamil rebel stronghold of Jaffna for the first time in five years, after a month-long offensive that has left thousands dead and wounded. Five soldiers and at least 40 rebels were killed in the day's fighting over Sri Lanka's third largest city, the military said. A division, including commandos and the élite Rapid Deployment Force, fought their way into the city. The government hopes the fall of Jaffna will make the rebels resume peace talks that were broken off in April. The rebels have been fighting for 12 years for their own territory. Most of the city's 120,000 Tamil civilians have fled in the last three weeks. *AP, Colombo*

Hanoi improves take-up of aid

Vietnam more than doubled its use of foreign aid lastyear, reflecting greater efficiency in planning and carrying out projects, the United Nations Development Programme said yesterday. A total of $607m worth of aid – mostly in the form of low-interest loans – was spent in 1994, compared with $287m in 1993, and the UNDP projected that aid use would reach $690m this year.

Governments and international institutions such as the World Bank gathered in Paris in 1993 and again in 1994 to assess Vietnam's progress in introducing free-market economic reforms and co-ordinate their pledges of financial support. Each year, however, Vietnam has failed to use all the resources offered because domestic red tape has slowed the implementation of projects.

The foreign donors pledged $1.86bn at the 1993 Paris conference and $2bn in 1994. They are scheduled to meet again on November 30 to set aid goals for the coming year. *AP, Hanoi*

■ Mr Don Brash, Reserve Bank of New Zealand governor, said the country's current account deficit appeared to have peaked at 4 per cent of gross domestic product and that recent increases had in part been the result of strong capital inflow from overseas. *Reuter, Wellington*

■ China's construction industry is forecast to grow at an annual rate of 12 per cent over the next five years and the government will further ease curbs on foreign investment in the sector, Mr Wu Zhinai of the Construction Ministry told Xinhua news agency. *Reuter, Beijing*

■ Cambodia's annual rate of inflation fell to 6 per cent in October, and an official of the country's National Bank said it believed it would remain low for the rest of 1995. *Reuter, Phnom Penh*

■ The Tokyo Stock Exchange and the Japan Securities Dealers Association yesterday reprimanded the Tokyo branch of Merrill Lynch for unauthorised stock trading. Earlier this month the Finance Ministry ordered the branch partially to suspend operations for two days. *AP, Tokyo*

■ The European Union and Nepal yesterday signed a trade and co-operation agreement that the Himalayan nation hopes will help it deal with an array of economic and environmental problems. *AP, Brussels*

Deal allows return to work in Washington . . . for now

By Jurek Martin in Washington

The US government was operating more or less normally yesterday for the first time in nearly a week following a Sunday night deal between President Bill Clinton and the Republican leadership in Congress.

Mr Newt Gingrich, Speaker of the House, conceded yesterday that the agreement meant that the proposed $245bn (£155bn) Republican income tax cut was now back on the negotiating table. But be took greater comfort in the fact that the president had agreed in principle to balancing the budget in seven years.

Their compromise funds government operations until December 15, including payments of salaries for the 800,000 civil servants laid off, and buys at least some time for both sides to reach a broader agreement on the 1995-96 budget.

But it does not cover raising the $4,900bn federal debt ceiling. The US treasury, however, believes it bas the means to avoid default before the end of the year.

The return to work makes more likely Mr Clinton's planned trip starting next week to Britain, including Ulster, Ireland, and to Spain for a European Union summit. He had cited the partial government shutdown for not going to Japan last week, sending Vice President Al Gore in his stead.

However the length of the visit may still be dependent on negotiations over the broader budget with Congress, which has so far passed only six of the 13 regular annual appropriations bills that were supposed to have been agreed by October 1.

Mr Clinton may yet veto some that remain and a similar fate awaits the overall Republican "reconciliation" bill passed last week which embraces both the current year's budget, the tax cuts and reforms of the social safety net. The White House claimed the Republicans had been forced to acknowledge in the agreement the president's budgetary "priorities".

The temporary funding bill the Senate passed on Sunday night which the House was considering yesterday contained some Republican concessions. It allows even those agencies the Republicans want to abolish 75 per cent of last year's budget, up from 60 per cent in the version approved last week.

Opponents postpone next battle in budget war

Both the White House and Congress found something in the agreement to crow about, writes Jurek Martin

The best compromises allow both sides in a dispute to claim at least satisfaction and at most victory. That was the message coming out of the Clinton administration and the Republican leadership in Congress in the wake of their Sunday night deal enabling the federal government to reopen for business yesterday.

In fact, all that was accomplished was to postpone until December 15 – and conceivably for long after that – the next big battle in the Great Budget War of the 1995-96 fiscal year. Mr Leon Panetta, White House chief of staff, and President Bill Clinton's chief negotiator, observed yesterday: "I don't think the American public should read a whole lot into what was agreed last night."

Although two new opinion polls yesterday continued to pin most of the blame on the Republicans, both sides sensed rising discontent with the partial government shutdown that began last Tuesday. If what bad been mostly inconveniences, symbolised by the closure of the Grand Canyon and the Statue of Liberty, bad turned into something worse, a plague would have been declared on both houses.

A factor in the administration's approach may also have been the Bosnian peace process, now poised between success and failure. Mr Clinton risks a sharp confrontation with Congress over the possible deployment of up to 25,000 US troops to enforce a settlement, as witnessed by the House vote last Friday against such a mission.

In 1990, with US forces already in Saudi Arabia in the wake of the Iraqi invasion of Kuwait, President George Bush signed a budget agreement that broke his campaign promise never to raise taxes. But be later secured congressional approval for the Gulf war that began in January 1991.

On the surface, the Sunday night deal offered something to both parties. Mr Newt Gingrich, the Speaker of the House, was able to declare "a very historic achievement" in that the president had committed himself to the core Republican principle of achieving a balanced budget in seven years, using the economic projections of the Congressional Budget Office that imply deeper cuts in social programmes than would be the case using administration forecasts.

But Mr Clinton could claim that the wording of the agreement did not give the last word to the CBO, since it would be subject to review by the administration's own economic forecasters and those of the private sector. An updated and rosier CBO scenario, likely given the 4.2 per cent growth of gross national product in the third quarter, would lead to less pruning of government.

More important to the administration was the fact that the agreement put just about all the more radical Republican attempts to reform the system back on the negotiating table, with the clear and explicit threat of more presidential vetoes if they are not watered down.

"You know what my standards are," Mr Clinton said in answering Mr Gingrich's assertions, "and you know what I'll do if we meet them and you'll know what I'll do if we don't." Mr Mike McCurry, the president's press secretary, said that "for the first time the Republican leadership in Congress has acknowledged that his priorities count."

The agreement's text says that any balanced budget in seven years "must protect future generations, ensure Medicare solvency, reform welfare, and provide adequate funding for Medicaid, education, national defence, veterans, agriculture and the environment," a laundry list embracing all the most contentious and detailed issues.

Also included was the promotion of "tax policies for the working poor", a reference to the Earned Income Tax Credit which is high on the Republican hit list. Even Mr Gingrich conceded yesterday that the proposed $245bn tax cut, a controversial centrepiece of the Republican programme, was back in play.

Whatever satisfaction the Republicans gained from their side of the temporary bargain was partly tempered by growls of discontent from the party's right wing. Senator Phil Gramm of Texas, encouraged by his second place in Saturday's Florida "straw poll" of Republican candidates for the party's presidential nomination, took predictable aim at Senator Bob Dole, the majority leader, for sacrificing conservative principles in cutting a deal with the administration.

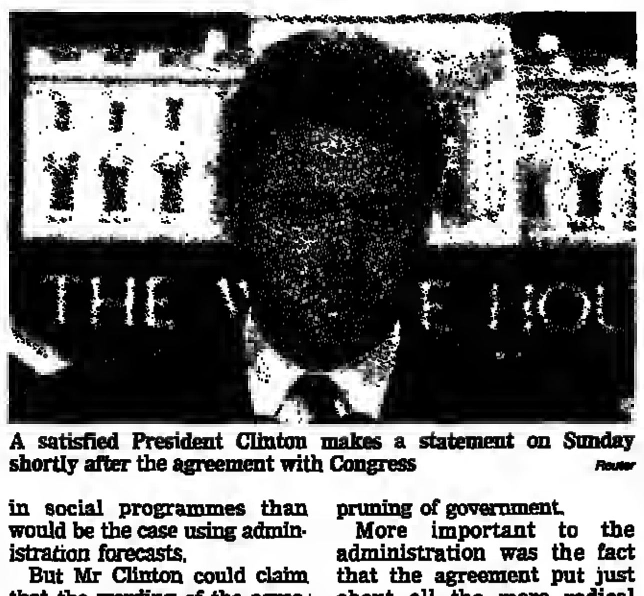
Mr Gingrich, seen in the polls as the principal villain in bringing government to a halt, could have problems in keeping his class of freshmen House members in line if accommodation goes too far in the weeks ahead. While wedded to the balanced budget principle, they have been uncompromising in their demands for detailed reforms of government programmes.

Congressional Democrats, however, now seem more united behind their president than for some time.

Last Saturday's extraordinary session in the House saw them incensed by what they saw as excesses of Republican rhetoric by Mr Gingrich.

Congressman Jim Moran from northern Virginia was one of the 48 House Democrats who deserted Mr Clinton in voting for a tough temporary government funding bill last week. But on Saturday he got into a near fist-fight with a Republican and said be would not vote with the Republicans in a hurry again.

Yesterday he added a necessary note of caution. "Everybody lost" in the Sunday night deal re-opening the government, he said. "It never should have happened." The real battle, over the proper role of government, was only now about to be joined.



A satisfied President Clinton makes a statement on Sunday shortly after the agreement with Congress *Reuter*

After months of broad hints and speculation, Senator Nancy Kassebaum announced yesterday she would not seek a fourth term, AP reports from Topeka.

"My reason for this decision is very simple and purely personal. I believe the time has come for me to leave the Senate and pursue other challenges, including the challenge of being a grandmother," she said.

Mrs Kassebaum, Republican Senator for Kansas and a leading party moderate, said she delayed her announcement out of a concern of becoming ineffective in the Senate.

End in sight for strikes at Boeing and Caterpillar

By Richard Tomkins in New York and Laurie Morse in Chicago

Two big US strikes that have brought out thousands of workers at Boeing, the aircraft manufacturer, and Caterpillar, tha heavy equipment maker, yesterday looked as though they could be heading for a peaceful resolution.

In Seattle, Washington, Boeing said it had reached a tentative agreement that could end a six-week strike by more than 32,000 members of the International Association of Machinists and Aerospace Workers. They could be back at work as early as tomorrow.

The strike was caused by disagreements between managemant and the machinists' union over terms for the renewal of the workers' three-year labour contract. It brought out about a third of Boeing's total work force and had severely affected output.

Following the intervention of a federal mediator at the weekend, Boeing said agreement had been reached over revised terms for a package that left wages much the same bnt improved health, pension and lay-off benefits. Union leaders will ba recommending their members to approve the package in a vote today.

Mr Bill Whitlow, an analyst at the Seattle-based Pacific Crest Securities, said if the strike ended today, Boeing would probably deliver slightly more than 200 aircraft this year, instead of the expected 235. However, the sbortfall would be made up next year, he said.

Separately, the Illinois-based Caterpillar signalled that a settlement with the striking United Autoworkers Union may be near. The company and union representatives have been meeting for several months to resolve the 17-montb-old strike, which involves more than 5,000 workers at Caterpillar plants in the Midwest.

"Although a few issues are yet to be resolved, we believe we are on the right path to reaching an agreement that is fair to UAW-represented employees and allows Caterpillar to maintain its leadership in a rapidly changing global marketplace," the company said.

Union officials said they would bring Caterpillar's proposal directly to the rank-and-file for a vote once it is finalised. Although company officials declined comment, the discussions may yield a six-year contract, the longest ever between the two parties, analysts said.

Caterpillar and the UAW have been battling for nearly five years over work rules and the company's resistance to "pattern" bargaining.

Peru spells out Brady bond cost

By Simon Kuper

Peru expects to spend about $300m a year from 1997 on servicing its Brady bonds, Mr Jorge Camet, the country's finance minister, said yesterday. Last month Peru became the last major Latin American nation to agree on a "Brady deal" with its creditor banks, under which some of its unpaid debt will be converted into bonds.

Mr Camet, in London to meet potential investors, also said the country would privatise every state-owned company. "In a couple of years not one will remain, not even the railways," he said.

Peru's privatisation process had been due to end this year. Howaver, it bas slowed because of inflation fears and because the government lacks the capacity to spend all receipts ou poverty reduction, as it is obliged to do under law.

Mr Camet said the government could service the Brady bonds – named after former US Treasury secretary Mr Nicholas Brady – without raising borrowing because it expected tax revenues to rise to 20 per cent of gross domestic product by 2000. Tbe increase would result from improved collection methods rather than any new taxes, the minister said. Tax receipts now total 14 per cent of GDP, up from 4 per cent in 1990.

Speaking from offices of the Swiss Bank Corporation, Mr Camet refused to comment on claims that Peru had commissioned the bank to buy back up to $1.4bn of the country's debt on the secondary markets, at a cost of $600m, prior to its Brady deal. Tbis annoyed some creditors, who thought the money sbonld have been used to begin making interest payments on the debt.

Peru plans to stage a Dutch auction next June in which it will buy back debt. The Brady deal would only gradually encourage foreign banks to resume lending to Peru, said Mr Camet.

President of Haiti anoints his heir apparent

A former PM has won Aristide's blessing in next month's election. Canute James reports

Mr Rene Preval, a former prime minister of Haiti, is widely expected to be elected the country's next president in next month's alection after winning support for his candidacy from the coalition which backs the current president, Mr Jean-Bertrand Aristide.

The candidacy of Mr Preval, and several others, ended widespread apeculation in Haiti that the presidential election, planned for December 17, would not be held, and that Mr Aristide would remain in office after the expiry of his term in February. The constitution bars the president from a consecutive term.

Mr Preval, who holds populist views similar to those of tbe president, has been "anointed" by Mr Aristide, according to diplomats in Port-au-Prince, Haiti's capital. He is among several candidates who registered by the Wednesday midnight deadline, and will be supported by the Lavalas coalition which put Mr Aristide into office in the 1990 election, and whicb swept the protracted and controversial parliamentary and municipal elections earlier this year.

An agronomist, Mr Preval was prime minister for seven months until September 1991 wben Mr Aristide was overthrown by the military and exiled for three years. He was recently the bead of an economic assistance fund financed by the World Bank. If elected president, he would carry on the "legacy of the victims of the coup" against Mr Aristide, he said.

Mr Preval would be strongly influenced by Mr Aristide wbo aides say plans to stand for the presidency in the election in 2000.

"Mr Preval is an ideological clone of Mr Aristide, and is less tolerant than Mr Aristide of dissenting opinions," said one diplomat. "If, as appears likely, be is elected, his policies will not be much different from Mr Aristide's. What we do not know is bow be would deal with the controversial economic issues."

The government and legislators are divided over the implementation of economic reforms agreed with foreign creditors and donors as part of a deal on more than $1bn in aid promised to Haiti over several months.

Aid to the hard-pressed economy has been delayed as the government vacillates over a potentially unpopular divestment of state enterprises.

"There has been a lot of talk as to wbether there will be presidential elections or not," said Mr Chavannes Jean-Baptiste, leader of a peasant movement which is part of the Lavalas coalition, and who announced Mr Preval's candidacy.

"As he was the first democratically elected president, Mr Aristide wants to set a good example so that democracy can take root."

Mr Preval's nomination and likely alection will concern some of Haiti's foreign backers who are keen to see more moderats politicians in control. Behind the diplomatic convention of a willingness to work with anyone wbo is elected, foreign governments, particnlarly the US, will pay close attention to the tenor of Mr Preval's campaign for the presidency, which officially starts on Thursday.

Haitian officials are worried that the election could be adversely affected by an outbreak of violence last week in which seven people were killed. Diplomats also say the integrity of the vote might be compromised by administrative and logistical shortcomings which were a feature of this year's parliamentary elections.

The violance followed an angry call by Mr Aristide for Haitians to disarm "criminals, terrorists and extremists", following the murder of a recently elected parliamentarian wbo is the president's cousin.

Known supporters of the former military government and former soldiers were set upon and beaten by Mr Aristide's supporters. The president has since called for calm but the atmosphere in the main towns remains tense.

Unions order disruptive action at GM factories

By Robert Taylor, Employment Editor

Vauxhall Motors, the British offshoot of General Motors, refused last night to improve a 3.5 per cent pay offer in spite of an overwhelming vote by its manual workers in favour of a strike.

Trade unions at the company's factories in Luton, about 100km north of London, and Ellesmere Port in north-west England, will impose a ban on overtime work and a two-hour cut in the basic working week from November 29.

Mr Tony Woodley, the Transport and General Workers Union national officer for the car industry, said: "Our members expect us to apply pressure on the company to secure an improved offer. We are anxious to avoid an all-out strike. The action we are taking at this stage is the minimum considered appropriate in response to the massive vote for a strike." The unions are demanding an 11 per cent pay rise and a cut in the basic working week from 39 to 37 hours.

In the postal ballot organised by the TGWU and the AEEU craft union, 5,201 workers (78.4 per cent) voted for strike action and 1,425 (21.6 per cent) voted against it. While 5,971 voted for action short of a strike, 684 voted against. The turnout was 92 per cent.

Mr Bruce Warman, Vauxhall's industrial relations director, said last night: "We are not going to increase our pay offer or make a cut in the working week. It is time to face reality. There are times and this is one of them where you have to be prepared to take it. We are not going to make any big bold changes in our offer."

He said the total package was worth 5 per cent in the first year with an extra day's holiday and a car sale scheme on top of a 3.5 per cent basic pay rise. Workers would get a pay rise equivalent to the retail price index rise plus 1.5 per cent next November in the second part of the deal.

Vauxhall is determined to resist any cut in working hours. "We believe this demand is being driven by the outside agenda of the unions," said Mr Warman. "It would hit our competitiveness and we will not give way on this."

Vauxhall's management will be formally told of the union's decision at noon tomorrow under the law covering industrial action that requires that companies must be given seven days' notice of any planned disruption.

Despite Vauxhall's statement, union negotiators are hopeful the company will improve its offer substantially. They point to Ford which has proposed a 4.75 per cent basic wage increase for its manual workers although union negotiators rejected that offer last week.

Shop stewards from all the Ford plants are due to meet tomorrow. They may decide to proceed with a strike ballot of the company's 22,000 manual workers.

Major demands answers on EU single currency

By Robert Peston, Political Editor

Prime minister John Major will battle to prevent a single European currency being created in 1999 unless the European Union resolves uncertainties about the consequences of only a small core of countries participating in monetary union.

In a speech designed to gloss over the split in his own party about whether the UK should participate in monetary union, Mr Major posed a series of questions which he said must be answered "before a single currency goes ahead".

He said at the annual Lord Mayor's banquet in London that it was "accepted across Europe" that only a minority of EU members would be ready for monetary union in 1999.

"The price of error would be too high for Europe", he said, if a small group of countries then merged their currencies without examining the problems created by a two-tier monetary Europe.

He listed four issues which need to be resolved:

- How would a single currency and the EU currencies outside co-exist?
- How would Europe's institutions serve the interests of those which adopted the single currency and those who did not?
- What would be the implications for the single market of competitive devaluations by those outside the monetary core?
- What would be the effect on the EU budget?

His speech may anger other EU governments, if they see it as an attempt to jeopardise the monetary union project. Some resent his provocative approach to the single currency debate, since the UK is one of only two EU countries which does not have to participate in monetary union, whether or not it meets the convergence criteria.

There were also signs last night that Mr Major's public airing about the dangers of a premature merger of currencies failed to placate the Eurosceptic right of his own party. "What he failed to address is whether he personally favours a single currency", said a rightwinger.

An EU heads of government summit in Madrid next month is expected to discuss monetary union and may decide the name of the new single currency.

Mr Major reiterated his determination that public spending should fall as a percentage of national income "below 40 per cent" from 42 per cent now. He said that "we are doing well" by spending relatively less than other European countries, but "not well enough". He pointed out that "both America and Japan spend less and tax less than we do".

The economy Construction industry weakness blamed as estimates revised downwards

Growth figures highlight slowdown

By Graham Bowley and Alison Smith

The British government was yesterday handed fresh evidence of a slowdown in the economy when estimates of growth in the third quarter of the year were revised downwards.

The Central Statistical Office said the economy, excluding oil and gas extraction, grew by only a seasonally adjusted 0.3 per cent between the second and third quarters of the year.

This is the lowest quarterly rate of growth since the final three months of 1992 and down from original estimates of 0.5 per cent growth in the third quarter.

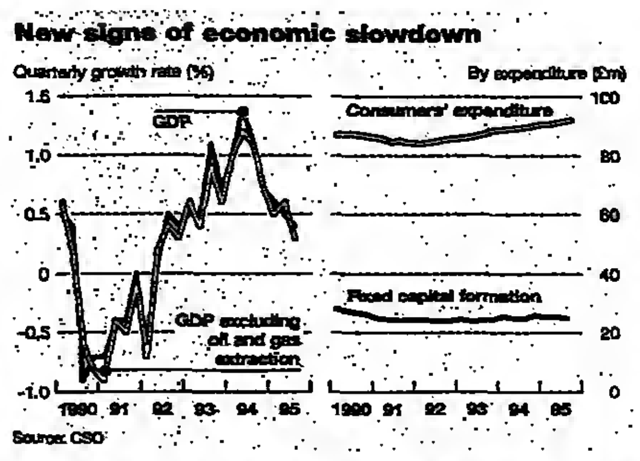
Weakness in the building industry accounted for most of the downward revision in GDP; construction industry output fell by 1.4 per cent between the second and third quarters

Separate figures also showed that new home loans made by building societies reached their lowest level for more than 15 years while mortgage lending by banks, whose market share has been increasing, also fell.

The figures will add to the *pressure on Mr Kenneth* Clarke, the chancellor, to boost the economy by cutting taxes at next week's Budget and possibly also lowering interest rates soon.

Mr David Mackie, an economist at JP Morgan, the US bank, said: "This tells you that interest rates are coming down. The Bank of England is going to find it very hard to resist lower interest rates."

New signs of economic slowdown



Source: CSO

The Treasury said that the figures showed that the recovery had clearly slowed but that the fundamentals remained in *place for sustained healthy* growth.

However, some economists warned that the pattern of growth boded badly: much of the growth in the third quarter stemmed from a build up in stocks of unsold goods; if companies run these down in the coming months, activity could slow further.

Further signs of weakness came with figures showing that new mortgage lending last month was significantly lower than in September.

New net lending by building societies was just £295m in October – less than half its September figure. This was the *sharpest month-on-month drop* since the autumn of 1992. Separate figures for mortgage lending by the high street banks also showed that new business was falling.

The fresh evidence of gloom is likely to intensify calls from Tory MPs for special help for the housing market in next week's Budget. However, there is no sign that the Treasury is departing from its earlier belief that maintaining low interest rates is better for the housing market than, for example, extending mortgage tax relief or helping first-time buyers.

This was partly offset by a rise in consumer expenditure of 0.7 per cent in this period.

Measured overall the economy, including oil and gas, grew by 2.1 per cent in the year to the third quarter, compared with an original estimate of 2.4 per ceot. This was sharply down from the annual growth in the same quarter of 1994 of *4.3 per cent.*

Consumer confidence remains subdued

By Gillian Tett, Economics Correspondent

In spite of the possibility of tax cuts, there is still little sign of any upturn in UK consumer confidence, a survey yesterday suggested.

The survey, condncted by the research group GfK for the European Commission, suggests there has barely been any change in consumer sentiment over the past six months.

Comparing this confidence level with earlier periods is difficult because GfK took over the running survey (previously condncted hy market research organisation Gallup) in the aummer, resulting in a hreak in data.

But rough comparisons suggest that confidence is better than it was during much of last year - albeit still down from the levels of previous recoveries.

*Slightly more of the 2,000-odd house*holds surveyed in November expect their financial situation to deteriorate over the next year than improve.

Fifty six per cent of households believe that their finances will remain unchanged - the same proportion as in October.

However, 16 per cent expect them to get a little worse – the highest proportion for six months.

The proportion of households expecting to make a major purchase has also deteriorated slightly – 32 per cent of people think now is a bad time to buy a large item, *the highest level* for six months.

The amount of money people plan to spend over the next 12 months has barely changed, with only 12 per cent anticipating higher expenditure.

Meanwhile, almost half of the people surveyed said that they were "just managing to make ends meet", with only 4 per cent saying that they were managing to save "a lot."

The public's perception of growth has barely changed, in spite of the intense debate in the City about any broader "slowdown." Forty-two per cent believe that *the sitnation will* remain unchanged, while only 18 per cent think it will get a little better.

However, the low inflation message does seem to be hitting home, with people thinking that prices have grown slightly more slowly over the last year than in the summer.

Labour backtracks on Murdoch criticism

By Robert Peston and James Blitz at Westminster

Mr Tony Blair, leader of Britain'a opposition Lahour party, last night quashed a call from a senior member of *his team for BSkyB, the satel*lite broadcaster controlled hy Mr Rnpert Murdocb, to be investigated by the Monopolies and Mergers Commission.

Mr Richard Cahorn, Labour's shadow competitiveness minister, had earlier in the day written to the deputy prime minister, Mr Michael Heseltine, calling for the probe. However, he was acting without the knowledge of *Mr* Blair and Mr John Prescott, the party's deputy leader, in whose team *Mr Caborn* works. "The letter is inoperative; it does not represent party policy", a Labour official said.

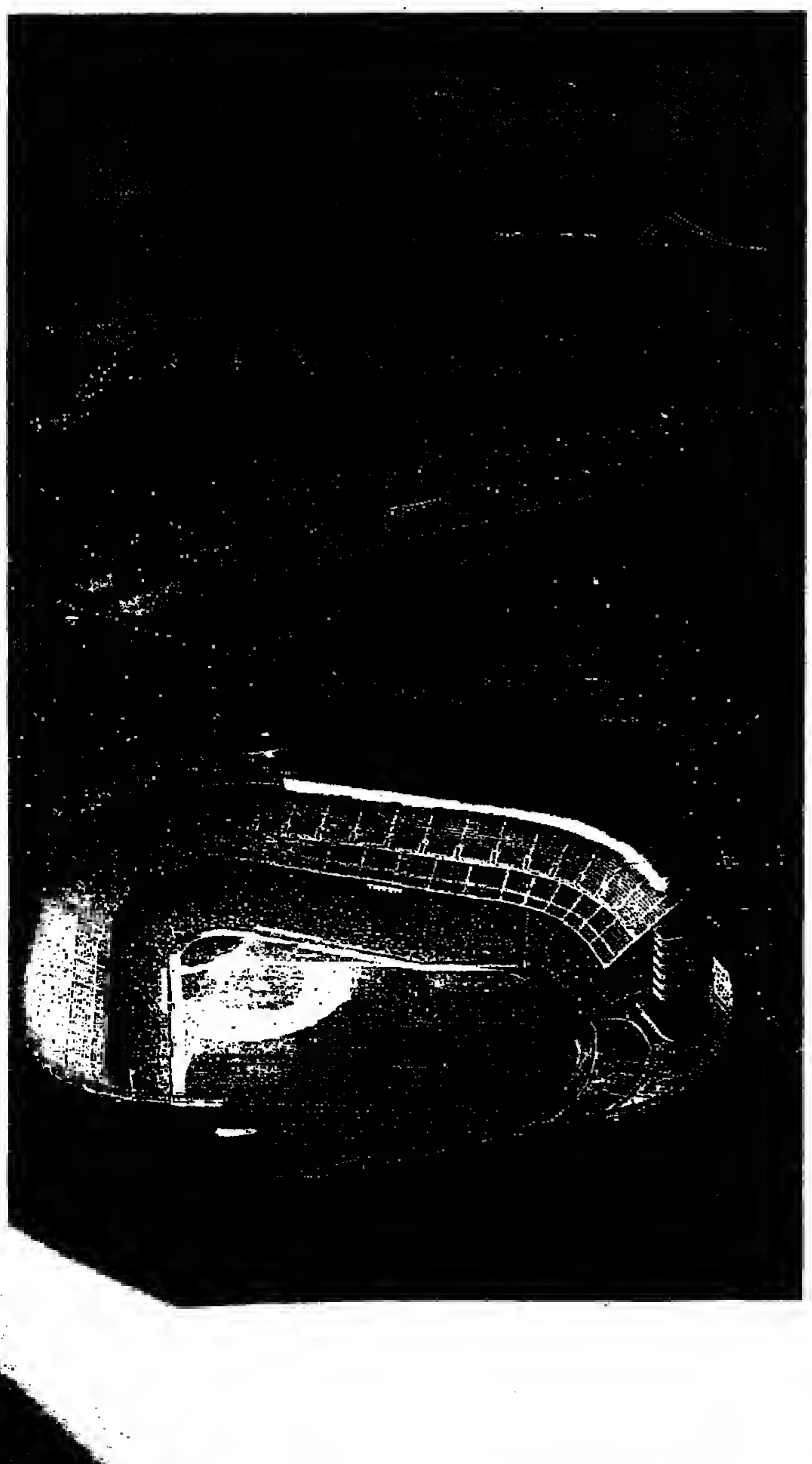
The incident is the latest indicatinn of the extent to which all important policy-making is controlled hy Mr Blair's office.

It is also likely to be interpreted as further evidence of Mr Blair's reluctance to wage war against *Mr Murdocb*, whose News Corporation conglomerate owns the leading share of the UK national newspaper market.

"Dick pretty quickly realised that he had dropped a clanger", said a party official. "He asked us how he could pnt it right".

In the snmmer, Mr Blair angered many of the party's traditionalists - who cannot forgive *Mr Murdoch* for the anti-Lahour tenor of his newspapers' coverage in the run-up to the last general election - by flying to Australia to address a News Corporation management conference.

Mr Caborn had been taking a close interest in BSkyB as chairman of the commons trade and industry committee until last month, when he joined Labour's frontbench *team. At the heart of his con*cern about BSkyB is its role as a "gatekeeper" for access to the UK cable and satellite sector, as the dominant distributor and because of its exclusive programming arrangements.



NEWS: UK

Privatisation of rail freight network 'The government appears to be going ahead with a unified sale'

US companies bid for heavy-load franchise

By Charles Batchelor, Transport Correspondent

Government efforts to break up the state rail network's freight operations risk being frustrated by the narrow range of bidders from the private sector. The aim of the break-up is to increase competition.

One of the US companies which is bidding for all of British Rail's heavy haul freight business has also made an offer for Rail Express Systems, the BR subsidiary which carries the Royal Mail.

At the same time, a management team which is bidding for Freightliner, which runs container trains between seaports and inland rail terminals, has also put in a bid for Rail Express Systems.

The Rail Freight Group, which represents freight operators and their customers, has urged the transport department to retain competition for the benefit of customers. "Many customers feel that BR has soaked them in the past and are opposed to a monopoly being continued when the railway is privatised," said Ms Julia Clarka, director of the group. "We are concerned that the government appears to be going ahead with a unified sale."

There are five hidders for British Rail's Trainload Freight companies, which move cargoes such as coal, steel and aggregates. They are three management buy-out teams; the Wisconsin Central Transportation freight railroad; and First RailFreight. The Omnitrax freight railroad company of Denver, Colorado, and Pieter Kiewit Sons, a large US construction group, are the majority shareholders in First RailFreight.

Omnitrax operates 12 short-haul freight-only lines on 2,400 km of track. It has revived defunct services and has invested in trackside handling facilities such as grain elevators to persuade customers to switch from road to rail, said Mr Dwight Johnson, president.

The three bidders for Rail Express Systems are Wisconsin Central, a team of RES managers, and MCB, a team of former managers from the Freightliner group which is also up for sale. The MCB team are also bidding for Freightliner itself.

The are concerns that the Trainload Freight businesses, with combined sales of £560m, are too large and too complex for US operators with no experience of operating in the UK, where freight shares track with very busy passenger services. Wisconsin, which recently acquired New Zealand Railway, had turnover of $211m in 1994. Omnitrax claims to be the largest privately owned US freight company. It is part of The Broe Companies, a holding company with property and electronics interests.

Rail Express Systems runs travelling post offices and other specialised trains which carry 30 per cent of all Royal Mail letters.

The first sign of difficulty in attempts to break the freight railway into smaller units appeared last month when it emerged that management buy-out teams from the three Trainload Freight companies were being encouraged to bid not just for their own business but for the other two as well.

Who wants what?

Targets: Rail Express Systems	Trainload Freight
Bidders:	
Management buy-out team	3 management buy-out teams
Wisconsin Central	Wisconsin Central
MCB team of Freightliner managers	First RailFreight

Performance of schools Teachers' trade unions attack government league tables of examination results

Education in England 'increasingly polarised'

By John Authers in London

Government annual performance tables for schools, published in detail for the fourth time today, brought fierce criticism that they were making English education increasingly polarised.

The proportion of 16-year-olds gaining five GCSE passes of at least grade C, the traditional requirement for moving on to the sixth form, increased slightly for the third year running from 43.3 per cent to 43.5 per cent. Sixteen is the earliest age at which pupils are allowed to leave school.

But the proportion failing to gain even one pass at the lowest grade (G) also rose – from 7.7 to 8.1 per cent. In 1993 only 7.0 per cent of school-leavera had no qualifications. Mr Peter Kilfoyle, the opposition Labour party's shadow schoola minister, said: "There is a twelvefold gap between the top and bottom 20 per cent of GCSE results. We clearly need to do more to lever up the standards of those getting low grades or no grades."

He criticised the government for failing to publish data on whether schools were improving. The government said the tables were helping to make progress towards national targets on ednoation and training. Teachers' trade unions said the indicators were "too crude", "flawed" and "failed", and attacked the expense they involved.

However, Mr Peter Smith, general secretary of the ATL teachers' union, said the tables had identified "two pressing problems – an increasing number of children who leave school with no qualifications and the out-performance of boys by girls".

Today's data confirm that the worst performanca is concentrated in urban areas of high daprivation. An FT analysis shows that there are 35 schools in England in which a quarter or more of 16-year-olds failed to gain any qualification. Only two are in "shire" counties away from the biggest urban areas. This figure does not include special schools for children with special needs.

Most are maintained by their local authorities, but three are grant-maintained, having opted out of their council, and five are church foundations.

Some of the schools with the poorest showing on this statistic still saw a healthy proportion gaining at least five Ca, suggesting that abler children might receive more attention. There were 14 schools where 20 per cent or more left with nothing, while at least 20 per cent of children gained five Cs.

The row over polarisation in the state system deflected attention from the division between the independent and state sectors. This showed a strong out-performance by fee-paying schools, with 77.53 per cent gaining at least five Cs compared with 40.24 per cent in local authority schools, and 53.76 per cent in grant-maintained schools which include most grammar schools.

When measured by their ability to gain at least some qualification for every child, the independents' advantage was less marked, with 6.24 per cent of their pupils failing to get at least one G. The equivalent figure for council schools is 6.99 per cent.

Girls' schools strongly out-performed boys' schools, confirming a long-running trend. In local anthority schools, 63.01 per cent of girls' school pupils reached the five C threshold, against 45 per cent in boys' schools.

Scotland, which has a different examination system from England, yesterday announced improved results for 16-year-olds. The number of pupils entering for Standard Grade – the qualifications taken by school-leavers – has remained fairly stable between 1993 and 1995. But the proportion gaining high-level "credit" awards – the top two grades – has risen.

The proportion gaining five or more qualifications at credit level – treated by ministers as an important yardstick – has grown by 4 per cent since 1993.

A total of 51 per cent of 16-year-olds gained at least five Standard Grades at the top three levels.

This is still far short of Scotland's target – that by the end of tha decade 85 per cent of 19-year-olds should have reached this level.

UK NEWS DIGEST

Treasury may scupper London rail link project

CrossRail, the £2.1bn ($3.30bn) project to build an east-west rail link under London, is threatened by a Treasury attempt to restrict funding, said the Corporation of London (the municipal authority for the City of London) said. A report on CrossRail, now being studied by transport secretary Sir George Young, is positive in its conclusions about the project. But backers of CrossRail fear its funds could be cut as part of the present budget review.

The project needs £14m a year to maintain the team of engineers and planners involved and will require a further £9m to take it through parliament. The CrossRail team hopes to put a draft order before parliament in March to start the procedure under the Transport and Works Act to approve the scheme. CrossRail, linking Paddington station to the west and Liverpool Street in the east, would bring Heathrow airport within 26 minutes of the West End and 30 minutes of the City.
Charles Batchelor, Transport Correspondent

Fines set on illegal workers

Employers will face a fine of up to £5,000 ($7,850) if they offer a job to an illegal immigrant without checking that the employee is entitled to work in the UK, Mr Michael Howard, the home secretary, announced yesterday.

In a consultation paper being sent to employers' organisations, Mr Howard said the government believed that the 10,000 people caught working illegally last year represented "only a small proportion" of the total problem. The consultation paper discloses that under the controversial asylum and immigration bill, employers could be convicted of employing illegal workers if they fail to make one of several specified checks.

The checks include asking to see potential employees' National Insurance numbers, birth certificates or passports, or certificates of registration or naturalisation as British citizens. Employers who fail to undertake at least one of the checks would have no defence against a charge of employing an illegal worker. However, the consultation paper warns employers to be "careful" not to lay themselves open to allegations of discriminatory employment practices.
Kevin Brown, Westminster

Hours cut 'boosts productivity'

The introduction of a shorter working week in the British engineering industry in recent years has not led to any direct loss of jobs but, in many companies, has led to an increase in productivity as well as greater flexibility. According to a study published today by Industrial Relations Services, the independent research organisation, a shorter working week has also enabled companies to harmonise terms and conditions of employment between manual and white-collar workers. However, eight out of 21 companies said they had suffered an increase in costs as a result of the hours reduction because of overtime payments.
Robert Taylor, Employment Editor

Architecture award for stadium

A futuristic stadium in the heart of an industrial Yorkshire town was yesterday named as the best building in Britain. The £18m ($28.26m) Alfred McAlpine Stadium (below), home of Huddersfield's football and rugby league clubs, has won the Royal Institute of British Architect's Building of the Year award for its design excellence. Institute president Owen

Luder enthusiastically described it as "spectacular, yet straightforward," and added: "If it had been built in Nimes, Bologna or Stuttgart we would have admired it from afar and wondered why it was impossible to build such a building in Britain."
PA News

British Coal outsourcing deal

British Coal has contracted out the administration of its pensions, concessionary fuel and employers liability claims – currently handled by its Sheffield-based Centris operation – to three UK subsidiaries of AON Corporation, the US insurance broking group.

The deal, which involves the transfer of nearly 400 staff, is thought to be one of the UK's biggest financial services related ontsourcing exercises. The administration of pensions for more than 500,000 former British Coal employees will be taken over by Godwins. The concessionary fuel scheme, which serves almost 200,000 retired miners and widows, will be handled by Rollins Hudig Hall. Employers liability claims will be managed by IRISC. The Centris name will be retained. AON, which has 2,000 staff in the UK, has been awarded the contracts for an initial five years.
David Wighton

Beatles' birthplace bought: On the day that the first "new" Beatles single for 25 years was released, the National Trust – the charity which safeguards England's architectural heritage – announced that it had bought a former council house in Liverpool which was home to Paul McCartney'a family and regarded as the birthplace of the band. The terraced house, 20 Forthlin Road, Liverpool, which was McCartney's family home for nine years, was purchased for an undisclosed price. It is the most recently built property to be acquired by the Trust – and the first connected with the pop world.

Diana show will bring more than $1m to BBC

PA News Reporters in London

Cash payments to the BBC from outside the UK for the right to broadcast last night's interview with Princess Diana are thought to have exceeded £1m ($1.56m). Broadcasting organisations in at least 12 countries have bought the rights, with the biggest payment coming from the ABC network in the US. The interview, broadcast in Britain in the BBC's Panorama series, has also been sold in Canada, Japan and Germany.

No details were released to buyers or the viewing public about the princess'a comments, and there was feverish speculation in the weekend press in Britain that she would refer to the state of her marriage to the Prince of Wales and to his relationships with other women and hers with other men.

In France the programme has been bought by the national TF1 network, but a bid from its rival Canal Plus was withdrawn because the film was shown last night on BBC satellite and cable channels.

Mr Geoff Crawford, press adviser to Princess Diana, said yesterday that he had decided to stand down from the job. His move came after she arranged her interview with the BBC without informing staff at Buckingham Palace. Mr Crawford, an Australian government official, will remain in the palace staff.

Editorial comment, Page 15

Few legal jobs for ethnic students, study indicates

By Robert Rice, Legal Correspondent

Entry to the legal profession in the UK still depends on money, race and background, according to research published yesterday by the Law Society, the governing body of the solicitors' (lawyers with the broadest range of advocacy and other work) profession in England. The study, which has followed the progress of 2,000 students since 1992, shows that ethnic minority students still face the biggest barriers to a career in the law.

The society says financial problems are the principal reason why many students fail to become lawyers. Around 75 per cent of those who had taken the solicitors' and harristers' finals courses were in debt. Barristers, who are briefed by solicitors, usually appear only in higher courts. Average debt for would-be solicitors was about £5,000 ($7,850) and £6,000 ($9,470) for would-be barristers.

But the biggest financial problems are faced by those who are already at some other disadvantage, such as older studants, women, ethnic minorities and those from poorer backgrounds.

Two out of five who applied for a two-year traineeship with a law firm did not receive an offer. Applicants with links to the profession, either through their family or past work experience had a better chance of being offered a job.

Taking account of academic achievement, links to the profession and family background, the survey by the Policy Studies Institute found ethnic minority candidates were less likely to gain a traineesbip with a law firm.

Tha influence of ethnic background was particularly strong for candidates with average or below-average academic achievements. The chances of ethnic minority candidates with average academic results obtaining a traineeship was about 40 per cent less than white candidates with similar academic results.

The study also found that the type of institution candidates attended to study law was an important influence on their chances of getting a traineeship. Law firms showed a strong preference for graduates of Oxford and Cambridge universities even when candidates from elsewhere had better academic qualifications.

Mr Martin Mears, president of the Law Society, said: "Discrimination on the grounds of ethnic origin is wrong and can never be justified. I am quite sure the great majority of law firms do not intend to discriminate."

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TECHNOLOGY

Disease protein located

New studies are helping to explain the mechanisms that lead to Huntington's Disease, the debilitating brain disorder, and may pave the way for the discovery of therapies.

The studies, presented at the annual meeting of the Society for Neuroscience, are the first to emerge that characterise the protein encoded by the gene for the disease, trace its distribution in the brain and identify a target for the gene.

"This is very good research," says Anne Young, a neurologist at Massachusetts General Hospital, in the US. "Just two years ago, the gene for the disease was found and we already have for the first time some tangible approaches to look for therapies for the disease. It is really exciting."

Huntington's is one of the more common inherited brain disorders. It destroys nerve cells in the basal ganglia, an area of the brain involved in movement, and in the cortex, the seat of memory and thought.

In one study, Johns Hopkins Medical School researchers identified an abnormal protein made in the brain that may cause the disease.

The finding, published in Nature magazine, raises the possibility of finding drugs that inhibit the protein. This would slow or even prevent the disease's development, says Christopher Ross, who led the research.

In 1993 the gene for the disease was identified on chromosome four, but its function and its target were a mystery. Ross's group identified an abnormal protein called HAP-1 that bound tightly to the protein encoded by the gene.

"HAP-1 selectively kills neurons in the brain, not cells elsewhere in the body," says Ross. "This seems to be a brain-specific protein, suggesting that it may be involved in the disease process. If we are right, then we can screen for compounds capable of inhibiting the interaction of these proteins."

Marjorie Shaffer

Solar scientists will soon have access to data that may solve several puzzles, writes Vanessa Houlder

Light shed on the sun

The ancient philosophers thought of the sun as perfect. Modern scientists are fascinated by its imperfections and complexity.

The most visible signs of the sun's complexity are the storms, spots and flares on the surface. Physicists are also puzzled by its atmosphere which is far hotter than parts closer to the core. Just as mystifying is the solar wind, the stream of particles and radiation blown out from the centre.

These features are of more than abstract curiosity as disturbances on the surface of the sun may have important effects on the earth's climate. Moreover, the solar wind can wreak havoc with the earth's magnetic field. Although this field shields the earth from the full blast of the sun's wind, it manages to penetrate at weak points, producing geomagnetic storms, power blackouts and disruption to navigation and communication systems.

In 1989, for example, fluctuating magnetic fields caused by an explosion on the sun shut down a nuclear plant in New Jersey and blacked out power across Quebec.

Better forecasting would limit the damage from this type of event. This goal, underpinned by the need for a better theoretical understanding of the sun, is being addressed by the European Space Agency. It has launched a solar-terrestrial science programme, devoted to studying ways in which the sun's rays and the solar wind affect the earth.

The first part of this programme is Soho, the Solar and Heliospheric Observatory, which is scheduled for launch on November 23 by Esa (which is responsible for two-thirds of its £400m funding) and Nasa, its North American counterpart. Soho will provide the first continuous, uninterrupted views of the sun. "Never before have solar physicists had the opportunity to work with such a comprehensive observatory giving them access literally to the whole sun," says Martin Huber, head of ESA's space science department.

Soho will fly in an elliptical orbit around a point where the gravitational pulls of the earth and sun cancel each other exactly. This point, 1.5m km sunward from the earth, is known as the inner Lagrangian point, after the French mathematician who calculated its position at the end of the eighteenth century.

The instruments on the spacecraft will be by far the heaviest and most complex payload yet carried in an ESA mission. There will be 12 instruments developed by scientific institutes in 15 countries, led by teams in Germany, the UK, France, the US, Finland and Switzerland.

The mission, which will take at least two years and may be extended to six, has three main objectives.

The first is to study the structure and dynamics of the solar interior. ESA scientists hope to establish the physical properties of the sun's deep interior in much the same way as scientists use earthquakes or seismic waves to decipher the earth's internal structure.

The throbbing motions of the sun's visible "surface", or photosphere, are caused by sound waves trapped inside the sun, in the same way as the surface of a speaker in a music system moves up and down with the beat of the music.

Soho will carry helioseismology instruments to measure these tiny oscillations. Detailed analysis of the data will allow scientists to make deductions about the sun's structure. The task is comparable to working out the structure of a violin just from listening to its sound, according to Douglas Gough, professor of theoretical astrophysics at Cambridge University, who will lead the team interpreting this data.

The information from these instruments could be significant. The Soho scientists hope the data will improve their understanding of the solar dynamo responsible for the sun's magnetic field and will establish the temperature at the centre of the sun, thus shedding light on a discrepancy known as the solar neutrino problem.

Solar neutrinos are the insubstantial, subatomic particles created in vast quantities in the core of the sun that travel almost unimpeded through matter. The problem is that fewer neutrinos have been detected from earth than expected, given what is thought to be the temperature at the centre of the sun.

Scientists hope Soho will determine whether the solar neutrino problem stems from a faulty estimate of the temperature at the sun or an error in current theories about how neutrinos behave.

The second main objective of Soho concerns the heating mechanisms of the sun's atmosphere.

ESA hopes that various spectrometers and telescopes will help clarify "one of the most fundamental, unresolved paradoxes of modern solar physics". The solar atmosphere, or corona, is several hundred times hotter than the photosphere, which is nearer the centre of the sun, apparently in contravention of one of the basic laws of physics that bars the flow of heat from a cooler to a hotter region.

The Soho mission may suggest possible mechanisms, possibly involving kinetic or magnetic energy, for heating the corona.

The third objective is to investigate the solar wind, the rarefied mixture of subatomic particles and radiation that streams out from the sun, sometimes at supersonic velocities. Soho will carry three solar wind measurement instruments that will attempt to map out its structure, measure the charged particles it contains and determine its temperature, density and velocity near the sun.

The goal will be to find out where the components of the solar wind come from and what forces propel it to such high speeds.

The Soho project's launch will be followed soon by the Cluster mission, which will study where and how solar particles break through the earth's magnetic shield; and several radars have been installed to record fluctuations in the earth's magnetic field in Iceland, Finland, Norway and Sweden.

The combination of spacecraft and radar promises to give solar physicists an unprecedented amount of detail. In the view of the UK's Particle Physics and Astronomy Research Council, they are primed to "make a significant advance" in understanding how the sun influences the earth.

In orbit: Soho will provide the first continuous, uninterrupted views of the sun

Reaching new heights

Miranda Eadie looks at plans for an international space station

European ministers have approved Europe's participation in the International Space Station Alpha, a permanently manned orbital research centre which will be assembled in space between 1997 and 2002.

Europe will contribute the Columbus laboratory, in which astronauts will carry out experiments exploiting the weightless environment of space. It will also build a transfer vehicle which will ferry cargo to and from the space station and reboost it to keep it in orbit. Studies for a crew transfer vehicle will also be done, although a final decision for this part of the project will not be taken until 1997.

The programme will cost Europe Ecu2.6bn (£2.2bn) including Ecu1.4bn before 2000. The largest contributions are coming from Germany (41 per cent) and France (27 per cent).

The decision to go ahead has come as a relief to the European Space Agency, since the Alpha programme has been beleaguered by economic problems since it began. "This is a landmark for the European space industry," says François Fillon, the French minister of information technology. "It is again unified and its future restored."

As the accord was signed in Toulouse, 400km above the earth Thomas Reiter stepped outside the Russian space station Mir to become the first ESA astronaut to walk in space.

Reiter is taking part in the second European/Russian mission, Euromir 95. He will spend almost six months in space, a record for a western European astronaut.

Reiter is also making history by being the first ESA astronaut to act as a flight engineer on board Mir. He is responsible for engineering tasks such as operating the critical life support systems which keep the space station habitable.

The purpose of the space walk, which he is making with the Russian astronaut Sergei Avdeyev, is to install equipment on the outside of Mir which will collect cosmic particles. Analysis of these particles will give insights into the origin and evolution of the solar system and will contribute to the understanding of their impact on the degradation of equipment in the space environment. The space walk will also provide vital experience in preparation for the orbital construction of the international space station.

During a normal day on Mir, Reiter spends about two hours doing checks and maintenance, one to two hours exercising, and four-and-a-half hours conducting experiments. No work is scheduled for the weekends, allowing time to relax and speak to his family.

Most of the 41 experiments are dedicated to research in human physiology. By investigating the effects of weightlessness in space on the human body, scientists can obtain new insights into its functioning. Not only do these help in the provision of countermeasures necessary during space flight, but *they can also help in the treatment* of people suffering from certain bodily malfunctions on earth.

"The more you know about a system, the easier it is to diagnose what's wrong when a pathological situation arises," says Heinz Oser, the chief life scientist in the ESA microgravity programme.

'This is a landmark for the European space industry. It is again unified and its future restored'

Several of the experiments are investigating the cause of bone mass loss which occurs in space, a condition similar to that seen in menopausal women suffering from osteoporosis.

Means of counteracting this reduction, either by supplementing the diet with vitamin K (known to play a role in mineral and protein uptake in bone remodelling) or by simulating the mechanical impact of walking (by striking the heel for short periods each day) are being investigated. Since bone mass loss occurs about 10 times faster in space than on earth, significant results could be obtained.

Other physiological experiments are examining the cardiovascular system, spatial disorientation and space sickness.

Means of counteracting muscle weakening and the shift of fluids towards the head are also being tested.

Gaps between old laws and modern financial practices could be eased by reform along four basic principles, says **Robert Rice**

No certainties about securities

The gap between modern financial practices and the majority of the world's laws on securities ownership and transfer is causing increasing concern in global capital markets.

As the volume of securities traded in local and international markets each day has grown dramatically in recent years, so have the risks for investors and financial intermediaries associated with the failure of a financial institution.

The inadequacies of most national securities laws are such that many lawyers believe unless they are corrected by multi-national law reform, legal uncertainty could make a financial crisis worse.

Local solutions are no longer enough. The collapse of Barings, the UK-based investment bank, in February underlined that national borders do no longer exist as far as financial transactions and market forces are concerned. The solution has to be the modernisation and harmonisation of the world's laws on the ownership, transfer and pledging of securities.

Last year the International Bar Association's capital markets forum decided to appoint an ad hoc committee of international securities lawyers to produce general principles for the future.

The committee, chaired by Mr Randall Guynn, a London-based partner of the New York law firm Davis Polk & Wardwell, has just produced its proposals. As explained in a discussion paper written by Mr Guynn, the committee proposes that existing laws should be reviewed and amended to reflect modern methods of holding and transferring securities. At the moment, Mr Guynn says, only the securities laws of Belgium, Luxembourg and the Revised Article 8 of the US Uniform Commercial Code appear to reflect such needs.

The problem with most existing laws is that they were written for a time when domestic securities were traded locally. Then, interest in securities was a traceable property right in individual securities and securities transactions involved the physical transfer of pieces of paper.

In the age of paperless trading where interests in securities are held through a multi-tiered system of banks and other financial intermediaries, transactions are effected by book-entry and domestic securities are traded internationally, existing laws have become obsolete.

According to Mr Guynn, most laws do not allow investors or secured creditors to determine in advance which law will govern their rights and obligations or those of possible adverse claimants. Nor do most laws allow them, once the governing law has been determined, to be certain that they have a distinct package of rights which cannot be attacked by adverse claimants.

These legal uncertainties and the costs of obtaining some certainty act as a deadweight on local, national and global economies, says Mr Guynn.

They increase the cost of capital for private and government issuers by reducing the value of securities to investors and secured creditors. They increase the legal cost and other operating costs of issuers, investors and secured creditors. They operate as a significant constraint on the reduction of credit and liquidity exposures.

And they contribute to systemic risk – the risk that when a company or financial intermediary goes bust, it will set off a chain reaction which can cause difficulties at other companies, in other market segments or in the financial system generally.

The risks and costs associated with these obsolete laws have been magnified in recent years because of the rapid growth in the value and volume of local and international transactions. For example, the annual volume of Eurobonds and domestic securities settled through Euroclear and Cedel, the two international central securities depositories, has grown from about $5,000bn in 1987 to $30,000bn in 1994. The volume of transactions in US government securities settled through Fedwire, the central US securities depository, together with transactions settled solely on the books of the main US clearing banks is close to $1,000bn a day. And the volume of foreign exchange transactions and other spot market, options, futures, forward and swaps, contracts is several thousand billion dollars a day.

In the age of paperless trading, existing securities laws have become obsolete

The need to address these obsolete laws is urgent. The committee's solution is to create some certainty by changing national laws to encompass four basic principles.

The first is to create a new type of interest in securities. This would be an interest in a pool rather than in specific securities, on a pro-rata basis. The pool would be held by an intermediary and investors would have an account with that financial institution, creating a direct contractual relationship.

The relationship would not entitle the account holder to the return of any specific securities. They would only entitle the holder to the return of an equivalent amount and type of securities.

Any claims by a third party could only be made against the institution with which the investor has the contractual relationship.

Because the intermediary does not own the securities in the pool, any claims by third parties would be different from a straightforward contractual claim against it. Unlike money deposits, where only a fraction is held as reserves, the intermediary would be required to maintain a sufficient pool of deposited securities or interests in securities to satisfy the interests of all interest holders, Mr Guynn says.

The second principle is that the pool held by an intermediary to satisfy the interests of all interest holders should be protected against the intermediary's other creditors. This may require a change in existing insolvency laws, Mr Guynn says.

The third principle – the conflict of laws – is the most important, says Mr Guynn. This determines which laws should govern the transaction where there is a conflict between two or more jurisdictions. This should establish that the governing law of any securities transaction should be determined by agreement between the parties involved.

Failing agreement, or if the agreement is not binding on third parties, the governing law should be the law of the country where the account with the intermediary is held, or the intermediary's home jurisdiction.

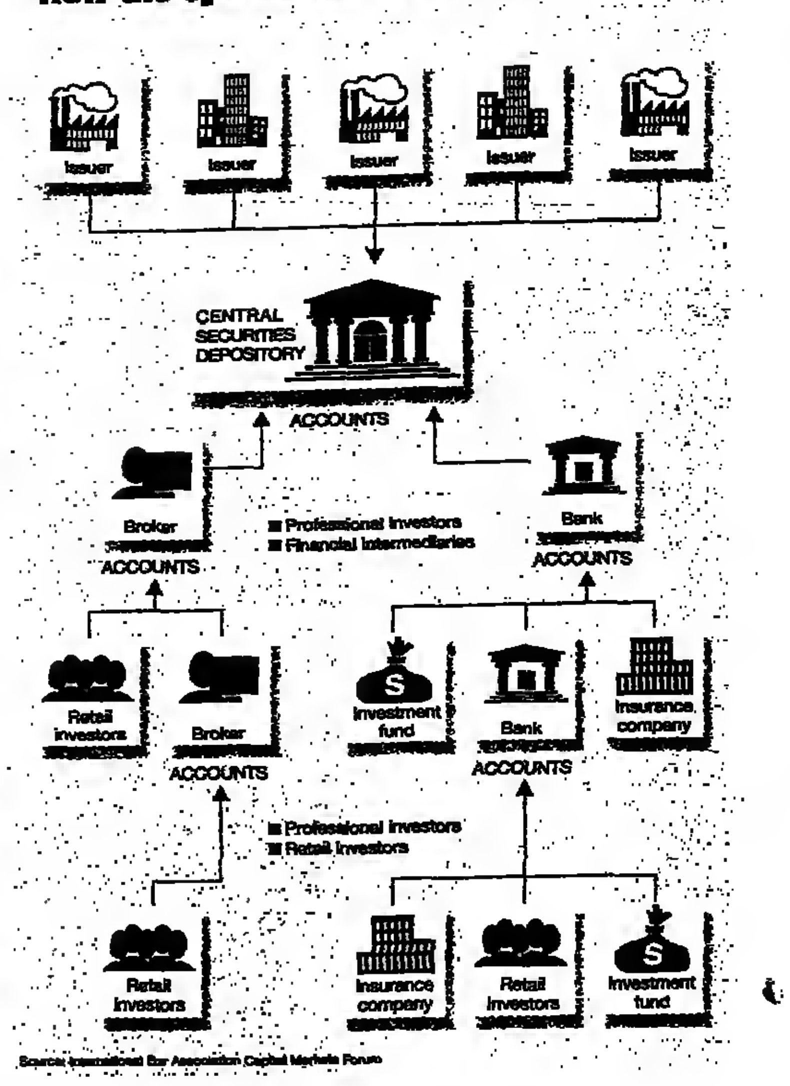
"The conflict of laws recommendation is clearly the most important of the four, and the one needing the most urgent attention," says Mr Guynn.

The fourth principle is that procedures for pledging securities as collateral to raise funds should be simplified.

The next stage is to persuade other countries to follow the lead set by Belgium, Luxembourg and the US in making such changes. Depending on how its proposals are received, the committee should then be in a position to approach the Bank for International Settlements and ask for its endorsement.

The final step would be to seek the support of central banking authorities for the necessary legal changes. With their support the crucial task of harmonising the world's securities holding and transfer laws can begin.

How the system works now



Source: International Bar Association Capital Markets Forum

Regulations on tied loan subsidies ruled unlawful

EUROPEAN COURT

National rules which tie the granting of interest rate subsidies on building loans to money lent by banks or other credit institutions established in that member state, are unlawful, the European Court of Justice ruled recently.

The case arose out of a refusal by the Luxembourg housing minister to grant two Luxembourg residents an interest rate subsidy on a building loan taken out with a financial institution in Belgium. The refusal was based on a domestic rule which limited such subsidies to persons who had taken out loans with Luxembourg institutions.

The two people challenged the minister's refusal as contrary to the Treaty of Rome rules on free movement of capital and the issue was referred to the European Court for a preliminary ruling.

The Court noted that restrictions on the movement of capital within the EU were abolished for people resident in the EU by a 1988 Council Directive and the building loan was covered by that directive. The question for the Court therefore was whether the Luxembourg rules were an obstacle to the free movement of capital.

The ECJ said that provisions implying a bank must be established in a member state for resident borrowers to obtain an interest rate subsidy out of public funds were liable to dissuade residents from approaching banks established in other member states and therefore they constituted an obstacle to the free movement of capital.

The Court also said that as building loans provided by banks constituted services within the meaning of the Treaty of Rome, it was also necessary to determine whether provisions such as those in force in Luxembourg were compatible with the treaty provisions on the freedom to provide services.

First it held that rules such as those operating in Luxembourg, constituted discrimination against credit institutions established in other member states contrary to the treaty provisions on the freedom to provide services. However, those treaty provisions did allow for restrictions to be justified on certain grounds which included public policy.

The Luxembourg government, supported by Greece, argued that the relevant domestic rules constituted part of the country's social policy, any change to which would have considerable economic and financial repercussions.

The subsidies in question constituted nearly 1 per cent of Luxembourg's total budget but nearly half of the sum in question was recovered by the Luxembourg government by means of a profit tax on financial institutions in Luxembourg, enabling the recovered money to be spent on a social policy favourable to housing.

The Luxembourg government further argued that the absence of the contested rules would endanger its housing policy, as banks in other states could not be subject to a Luxembourg profit tax and therefore the government would not be able to recover its subsidies.

The ECJ did not accept that argument. It said that the domestic provisions in question entailed discrimination based on the place of establishment of the financial institution. Such discrimination could only be justified under the Treaty of Rome on grounds of, among others, public policy, which did not include economic aims.

Although the Court had previously held that rules liable to restrict the freedom to provide services could be justified by the need to maintain the integrity of the national tax regime, that was not relevant to the present case as there was no direct link between the grant of the interest rate subsidy to borrowers and its financing by means of a profit tax on financial establishments.

The Court therefore found the national provisions to be *incompatible* with the treaty rules on the freedom to provide services and the free movement of capital.

C-484/93: Svensson and Gustavsson v Ministère du Logement et de l'Urbanisme, ECJ FC, November 14 1995.

BRICK COURT CHAMBERS, BRUSSELS

ARTS

In praise of Mr Purcell, 300 years on

His reputation has risen more in the last 25 years that in the previous 250, writes **Richard Fairman**

The common belief is that Purcell died of catching cold one night after being locked out by his wife when he came home drunk from a tavern called "The Hole in the Wall". More prosaic theories are that he had influenza or tuberculosis. Whatever the cause, he died on November 21 1695. He was 36 and at the height of his powers.

There is no question that 17th-century England knew the loss it had suffered. A London newspaper, The Flying Post, announced that "Mr Henry Pursel, one of the most Celebrated Masters of the Science of Musick in the Kingdom and scarce inferior to any in Europe" was to be buried in Westminster Abbey. The resting-place was a fitting one. As a boy, Purcell had sung in the Abbey choir; in 1679 he rose to the position of organist and went on to compose for the Abbey some of his greatest music.

There was only one possible venue for tonight's commemorative event. Westminster Abbey will mark the 300th anniversary of the death of its most famous musical son with a concert featuring Purcell in the company of 20th-century British composers. BBC2 television and BBC Radio 3, which has provided such inspired leadership throughout the year, are joining in a simultaneous live broadcast.

It comes as the culmination of an astonishing programme of events nationwide. In Britain, not even the Mozart bicentenary in 1991 caused a greater stir. There have been several televised events, mini-festivals and countless recordings – perhaps the most lasting achievement being the complete series of the odes and the sacred music on disc from that adventurous record company, Hyperion.

Purcell's reputation must have risen more in the last 25 years than in the previous 250. Pause for a moment and think back to 1970. Apart from the ever popular *Dido and Aeneas* and some of the church anthems, what Purcell did we hear? Few performers trusted his popularity enough to put his music in their programmes. Even Britten, a great Purcell admirer, made his own arrangement of *The Fairy Queen* before he recorded it.

Now the early music upheaval has turned the world upside down. As one record company executive remarked, "We can sell any British music overseas these days", adding with a smile, "as long as it was written before 1750". While our symphony orchestras struggle to find profitable work, anybody wanting a period instrument ensemble has to book musicians two or three years in advance to be sure of getting the best players.

The Barbican had clearly planned early for its Purcell festival, entitled "Behind the masque", at the weekend. Christopher Hogwood was the artistic director, bringing with him the Academy of Ancient Music and inviting Harry Christophers and The Sixteen for the middle evening on Saturday. Although there were smaller events investigating everything from the trio sonatas to the church music, the principal attraction was three of the major stage works.

Probably the most important thing to have come out of this year is the opportunity to judge these semi-operas live, often being performed with their original plays. A lavish full staging, like the Royal Opera's *King Arthur*, has to be first choice, as it is the closest to the 17th-century entertainment. Trying to save money by reducing the drama to a mime or dance has been shown to be a mistake. Better to forget the creaky old plays altogether and leave the music to itself.

Hogwood's performance of *The Indian Queen* on Friday chose to replace Dryden's play with a spoken monologue. Unfortunately, the talking went on too long and interest flagged. Last year's production by the Scottish Early Music Consort, which included the (admittedly laughable) play, showed how the drama creates its own tension. Although Hogwood's instrumentalists and singers performed well enough, they were hampered by being placed at the back of the Barbican stage so as to allow dancers at the front. The music is not big enough in scale for that.

Harry Christophers and The Sixteen managed better on Saturday with *The Fairy Queen*. Once again there was a spoken synopsis, somewhat shorter, though jokily adolescent. They gained because the musicians this time were placed at the front of the stage, where they could make an impact.

Michael Chance and Richard Suart in particular put across their roles with authentic Restoration gusto. Christophers conducted in a consciously expressive manner that felt too modern; Hogwood settled for elegant dance rhythms and less depth.

There were full houses every night, as there surely will be at Westminster Abbey, too. For the coronation of William and Mary in 1689, the resourceful Purcell sold seats for the organ loft and made a profit of £500 (though he was made to repay it later to the authorities). Will tonight's organist at the Abbey be looking to match his initiative?

The Fairy Queen was sponsored by McKenna and Co. and the John Ellerman Foundation.

Totemic images

William Packer admires the work of William Turnbull

Along with Eduardo Paolozzi and Anthony Caro, with whom he is, at 73, more or less coeval, William Turnbull is the third British sculptor of his generation with proper international standing.

The story is told that, at some time in the late 1960s, Turnbull was carrying two girders, painted a single colour, along a corridor at the Central School, where he was teaching. "Is it finished then?", asked a passing painter-colleague, whereupon Turnbull delivered a serious lesson on the subject for 20 minutes. And indeed it was finished. For Turnbull in the 1960s and early '70s went through a period of full commitment to the reductive principles of minimalism, both as painter and sculptor – to which the paintings on show at the Serpentine still bear deceptive witness. Minimalism was indeed of great importance in his development as an artist, but it was a passage from which he emerged.

This, Turnbull's first major show in a public gallery since his Tate retrospective of 1973, is no simple chronology. Rather it is a highly selective critical study by David Sylvester, who has fixed upon two periods in the sculpture – 1954 to 1962, and from 1986 to the present – and paintings at intervals from the late 1950s to the 1990s, to make obvious what was always true, that Turnbull *au fond* has been a figurative artist all along. It happens to make most wonderful sense, and sense of most hauntingly beautiful and physical a kind.

After serving in the RAF during the war, Turnbull went to the Slade, where his fellow Scotsman, Eduardo Paolozzi was already a student and soon a friend. Like him, Turnbull went to live in Paris in the later 1940s. Who is to say whether their voluntary exile was the deliberate distancing of young artists from what might have seemed then the isolated and stifling Englishness of Henry Moore and Barbara Hepworth? Or was it simply their seduction by Paris herself, newly-liberated and, for a while yet, still the heart and centre of the artist's world?

Certainly there was always manifest in their work a cosmopolitan quality that set them apart, even from their own generation. Both soon formed close and direct links with surviving surrealism, but while Paolozzi turned towards something more active in the statement – the sculpture of Picasso for example – Turnbull found himself looking to calmer and more ambiguous influences, and to the example of Giacometti in particular, whom he knew.

Giacometti indeed supplies the early clue, not so much by his imagery as such, as by the attenuated simplicity of his heads and figures. Here were mere pinched lumps and sticks of clay, that were yet full of life and of monumental form and presence. It showed how little was needed to adduce the spirit, the suggestion, the reality of the image.

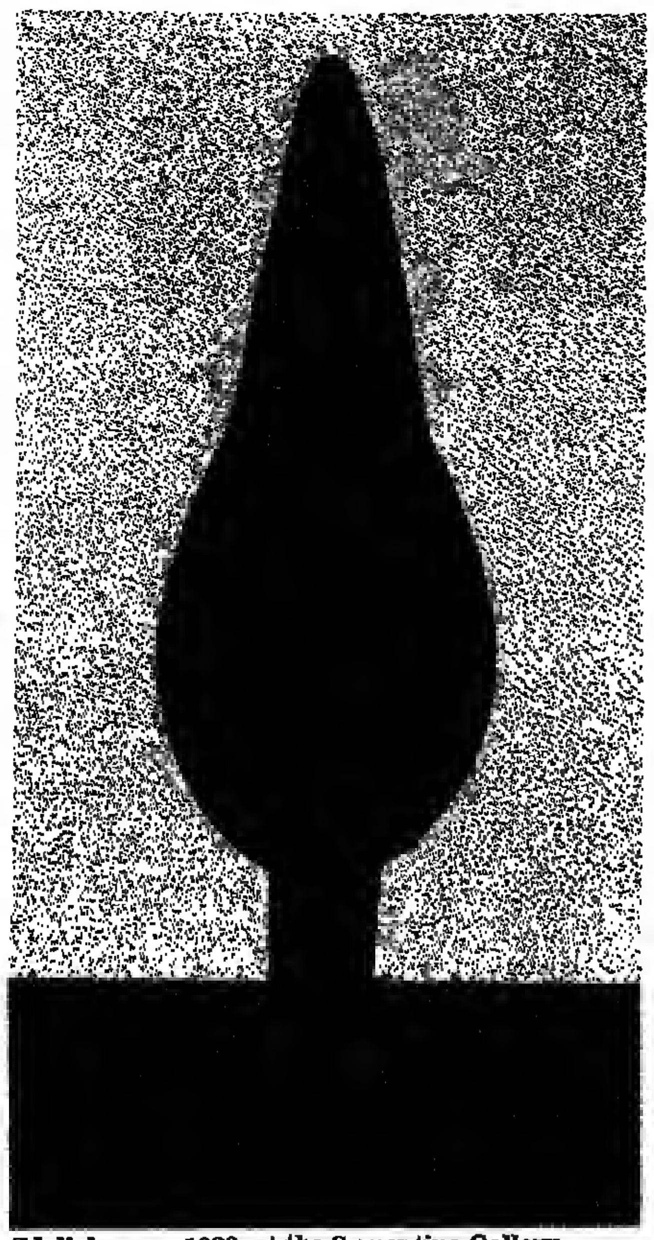
Turnbull had moved to an assured maturity in his work with remarkable speed, and certainly long before 1954, Sylvester's starting-point. The next seven or eight years were to see the production of an extended series of totemic images, lumpen elements of bronze, wood or stone piled into columns or teetering across each other in precarious balance, arms as it were outstretched. It is a curious cocktail of Hepworth and Brancusi, yet quite distinct. For, no matter how abstracted it might be, the human reference remains integral and instinct, rather than applied by association.

The jump across more than 20 years to the latest phase in the sculpture marks the re-emergence of this same integral and essential figuration, after a long interval of pure abstraction. The reference is now somewhat different and, if anything, more specific. The form is spread and shallow, shield or spade-like yet with a hint of the scale and profile of the figure, and carrying delicate graphic scorings, neither description nor decoration but something in between.

It remains for the paintings to make the paradoxical point that the simplest, most minimal and monochromatic of statements may carry the richest inferences of humane engagement. In the context of the minimalist sculpture, they seemed more conventional than personal, but here, beside the more intuitive and openly referential sculpture, early and late, they have never made more sense. The work comes together, all of a piece, and the artist comes back to himself. Turnbull is an intuitive and a romantic after all.

In his introductory essay, Sylvester introduces "hieratic" as a descriptive, insisting on its true and particular sense of the priestly, extending to sacred persons or functions. Turnbull's work indeed has always had to it the quality of the mysterious, the celebratory or ritualistic. One thinks of the megalith in the field, the totem, the tutelary deity, household gods. Sylvester cites variously as touchstones such things as pre-historic figurines, Egyptian and Cycladic votive carvings, and tribal masks and figures from West Africa. I think of the slender standing-stone, 20 feet high, that I saw in County Mayo this summer, with two vestigial Celtic crosses carved at its base, as it were to appropriate and humanise that ancient pagan presence. With Turnbull too, with his scratchings and incisions that may be a breast or head or merely a mark made in passing, the figuration, the humanity, lies in just such marginal acts of possession.

William Turnbull – bronze idols & untitled paintings: the Serpentine Gallery, London W2, until January 7; sponsored by Tag Heuer with the Evening Standard and the Henry Moore Foundation.



'Idol', bronze, 1988, at the Serpentine Gallery

The Fab Four: the sense of fun and creative tension in their early recording sessions is palpable Camera Press

The Beatles: works in progress

Is this latest album hype or pop history? **Peter Aspden** reports

Organisers of the launch of the Beatles' first new song for 25 years were caught in two minds yesterday: whether to try and re-create the old magic with a Cavern-esque backdrop of drum kits and old clippings, or to rely on the powder-blue rococo splendour of the Savoy's Lancaster Room. In the end, they mixed and matched without too many concessions to taste. A journalist asked tentatively if John Lennon would have approved of the proceedings. Approved? The scene looked like a lyric from "I Am The Walrus".

Is the release of "Free As a Bird" and the first volume of *The Beatles Anthology* anything more than the most supreme example of pop music hype, or does it offer genuine insights into the group's recorded legacy? The single itself supports the former view: a plodding, dull account of a song Lennon recorded in demo form in 1977. The only magic around is in the technological achievement of marrying Lennon's weedy vocal to the Fab Three's uncharacteristically turgid backing. Paul McCartney has rarely provided a more unimaginative bass-line, almost as if he is afraid to steal his old chum's limelight. It was never like this in the golden years, when their rivalry pushed them to extraordinary creative heights.

As for the rest of the album, at least half is strictly for the pop archaeologists. The 1958 Quarry Men recordings; the rehearsals from McCartney's home in Liverpool; the 1961 recordings of "My Bonnie" (with Tony Sheridan) and "Ain't She Sweet": there are no hints of genius to come here, just a couple of mildly intriguing touches of Beatlish humour.

Then there are those famous Decca audition tapes, which led to the label turning the band down and living with the resultant stigma for the next 40 years. Many would surely have agreed with their decision. There is some tight playing, but the Lennon/McCartney numbers, "Like Dreamers Do" and "Hello Little Girl", are derivative and undistinguished.

The first sit-up-and-listen moment comes from a Stockholm concert from October 1963: a driving, almost arrogant version of "I Saw Her Standing There", a dirty, raucous "Money" and an exuberant "Roll Over Beethoven". Here is the band that knows it is going somewhere.

By the time the boys came back to Britain and the Royal Variety Show, their self-confidence was overwhelming, not only in the form of Lennon's csustic asides but also musically: the complex harmonies of "She Loves Yon" are achieved with a minimum of distress.

The most interesting parts of *Anthology* are the works-in-progress tracks: snippets of out-takes, rejected versions and early experiments of songs which would become classics. The sense of fun and creative tension brought to those early recording sessions is palpable. Every time a take is interrupted, McCartney nervously runs up and down his bass or Lennon makes a joke. Between consecutive takes of "I'll Be Back", the song's tempo is altered from waltz time to 4/4; several beginnings are tried and discarded on "Eight Days A Week". Here are glimpses of the group's legendary improvisatory abilities, which make the brilliance of their best work a little easier to appreciate.

Providing the final polish, of course, was the Beatles' producer George Martin, who, on the evidence provided here, always chose the right version of a song for release. Yesterday he was in typically generous mood, hailing the Jeff Lynne-produced "Free As a Bird" as a "great record and super song" – it is neither – and underplaying his role in general.

Anthology I ends with McCartney's rollicking vocal on "Kansas City/Hey-Hey-Hey-Hey" from late 1964. The Beatles as phenomenon had been firmly established, but The Beatles as supremely gifted songwriters were only just getting into their stride. Expect more interest – and a lot more hype – from Volumes Two and Three, released next year.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Radio Filharmonisch Orkest: with conductor Sakari Oramo and violinist Isabelle van Keulen perform Sibelius' "Lemminkainen", Dutilleux's "L'arbre des songes" and Saariaho's "Du crystal...": 3pm; Nov 25

■ BARCELONA

JAZZ & BLUES
Palau de la Música Catalana
Tel: 34-3-3171096
● Phil Woods and the Cedar Walton Quartet: perform music by Charlie Parker. Featuring the Ramon Diaz Group. Part of the 27th Barcelona International Jazz Festival; 9.30pm; Nov 23

■ BERGEN

CONCERT
Grieghallen Tel: 47-55-216150
● Bergen Filharmoniske Orkester: with conductor Antoni Ros Marba and violinist Dmitry Sitkovetsky perform works by Bibalo, Prokofiev and Beethoven; 7.30pm; Nov 23

■ BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203092100/01
● Berliner Singakademie: with conductor Achim Zimmermann, pianists Sigurd Brauns and Klaus Kirbach, mezzo-soprano Annette Jahns and baritone Egbert Junghanns perform Eisler's "Die Mutter", Schoenberg's "Friede auf Erden" and a selection of Brahms' "Liebeslieder-Walzer" and "Neue Liebeslieder-Walzer"; 8pm; Nov 22

■ COLOGNE

OPERA & OPERETTA
Opernhaus Tel: 49-221-2218240
● Die Zauberflöte: by Mozart. Conducted by Georg Fischer and performed by the Oper Köln. Soloists include Franz-Josef Selig, Rainer Trost, Amanda Halgrimson and Nina Stemme; 7.30pm; Nov 23, 29
THEATRE
Schauspielhaus & West-end-Theater
Tel: 49-221-2218400
● Die Jungfrau von Orleans: by Schiller. Directed by Torsten Fischer. With Jacquelina Kommüller, Sophie von Kessel, Birgit Walter and others; 7.30pm; Nov 24, 25, 26 (3pm)

■ DRESDEN

OPERA & OPERETTA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Die Zauberflöte: by Mozart. Conducted by Siegfried Kurz and performed by the Sächsische Staatsoper Dresden. Soloists includa Rainer Büsching and Roxana Incontrera; 7pm; Nov 23

■ FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Ensemble Modern: perform works by Lachenmann, Scelsi, Rihm and Murail; 8pm; Nov 22

■ HELSINKI

CONCERT
Finlandia-talo - Finlandia Hall
Tel: 358-0-40241
● Radio Symphony Orchestra: with conductor Hiroshi Wagasuki and pianist Christian Zacharias perform works by Mozart and Bruckner; 7.30pm; Nov 22
DANCE
Opera House Tel: 358-0-403021
● Don Quixote: by Minkus, in a choreography by Bart/Petipa. Performed by the Finnish National Ballet; 7pm; Nov 22, 25, 28

■ LONDON

AUCTION
Bonhams Chelsea
Tel: 44-171-3933900
● The Lady Sylvia Harlech Memorial Collection of Toys: a private American collection of over 500 rare and unusual toys, including a model of the Capitol Building, Washington, containing a roll-call of presidents' names, German and French tin toys, optical and mechanical toys, conjuring and magic tricks, Bliss dolls' houses, Victorian puzzles, games and books; 12am; Nov 23
CONCERT
Barbican Hall Tel: 44-171-6388891
● London Symphony Orchestra: with conductor Mstislav Rostropovich and cellist Han-na Chang, winner of the International Rostropovich Competition in Paris in 1994 at the age of 11, perform Tchaikovsky's "Suite No.4 in G" and "Rococo Variations", and Shostakovich's "Symphony No.10"; 7.30pm; Nov 23
Royal Festival Hall
Tel: 44-171-9604242
● The London Philharmonic: with conductor Franz Welser-Möst, pianist Jean-Yves Thibaudet and Cynthia Millar on ondes Martenot perform Messiaen's "Turangalila-Symphony"; 7.30pm; Nov 22
Wigmore Hall Tel: 44-171-9352141
● Benjamin Britten Birthday Concert: tenor Anthony Rolfe Johnson and pianist Graham Johnson perform Britten's "7 Sonnets of Michelangelo" and "6 Hölderlin Fragments", and R. Schumann's "Dichterliebe"; 8pm; Nov 22
THEATRE
Cottesloe Theatre
Tel: 44-171-9282252
● Skylight: by Hare. Directed by Richard Eyre. With Daniel Betts, Michael Gambon and Lia Williams; 7.30pm; Nov 23, 24, 25 (also 2.30pm)

■ MUNICH

OPERA & OPERETTA
Nationaltheater
Tel: 49-89-21851920
● Carmen: by Bizet. Conducted by Jacques Delacôte, directed by Lina Wertmüller and performed by the Bayerische Staatsoper. Soloists include Frances Lucey, Silvia Fichtl, Elena Zaremba, Angela-Maria Blasi, Maurizio Muraro, Martin Gantner and Mario Malagnini; 7pm; Nov 23, 25

■ NEW YORK

OPERA & OPERETTA
Metropolitan Opera House
Tel: 1-212-362-6000
● Mahagonny: by Weill. Conducted by James Levine and performed by the Metropolitan Opera. Soloists include Irene Stratas, Helga Dernesch and Kenneth Riegel; 8pm; Nov 25 (1.30pm), 29; Dec 2, 6

■ PARIS

OPERA & OPERETTA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Eugene Onegin: by Tchaikovsky. Conducted by Alexander Anissimov and performed by the Opéra National de Paris. Soloists includa Gerlinde Lorenz, Solveig Kringelborn and Randi Stene; 7.30pm; Nov 22

■ PRAGUE

OPERA & OPERETTA
National Theatre
Tel: 42-2-24912673
● Eugene Onegin: by Tchaikovsky. Conducted by J. Stich and performed by tha National Opera Prague; 7pm; Nov 22

■ STOCKHOLM

CONCERT
Konserthuset Tel: 46-8-212520
● Filharmonikerna: with conductor Eri Klas and cellist Mats Rondin perform Pärt's "Symphony No.1", "Symphony No.2", "Symphony No.3", "Cello Concerto" and "Perpetuum mobile". One of the Pärtfestival performances; 7.30pm; Nov 22

■ TORONTO

THEATRE
O'Keefe Centre for the Performing Arts Tel: 1-416-393-7474
● Andre-Philippe Gagnon: one-man ahow by this Canadian performer, known for his impersonations of pop music stars. The show is a mix of comedy and music featuring more than a 100 voices; 8pm; Nov 22, 23, 24

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Alfred Brendel: performs Beethoven's sonatas op. 109, 110 and 111; 7.30pm; Nov 23
THEATRE
Burgtheater Tel: 43-1-514442960
● Heldenplatz: by Bernhard. Directed by Peymann/Herrmann and performed by the Burgtheater. The performance on Nov 26 is a celebration of the seventieth birthday of actress Annemarie Düringer; 7pm; Nov 25, 26 (6pm)

■ WASHINGTON

OPERA & OPERETTA
Opera House Tel: 1-202-416-7800
● Luisa Miller: by Verdi. Conducted by Richard Buckley and performed by the Washington Opera. Soloists include Veronica Villaroel, Jane Gilbert, Lando Bartolini, Haijing Fu, Gabor Andrasy and Kevin Langan; 7pm; Nov 25

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Midnight
Financial Times Business Tonight

Europa: **Dominique Moïsi**

Lessons from Asia

Hong Kong and its regional neighbours can teach a great deal – in both a positive and a negative sense – to Europe

A hundred years ago Asia – and Japan in particular – constituted one of two things in European eyes: it was either a sphere in which to extend Europe's economic penetration and political influence; or it was a source of exotic inspiration for European painters and poets. Europe, meanwhile, was perceived by Asians as a gateway to modernity, a model of technological, military and bureaucratic efficiency.

In recent years a complete change in attitudes has taken place. Europeans, unsure of themselves and apprehensive about their future, are starting to ask what they can learn from Asia – not only in purely economic terms, but also in the area of social values. In other words, Asia is no longer perceived solely as an irresistible competitor and an ever-expanding market.

This focus on "easternisation" has become, for many dedicated Eurosceptics, a fashionable way of denouncing state *dirigisme*, inefficiency and bankrupt social security systems.

For Asians going about their day-to-day lives, meanwhile, Europe is most often associated with elegant consumer products.

After a two-week visit to Hong Kong, I have the impression that Europe has much to learn from the territory in both a positive and a negative sense. I was struck, for example, by Hong Kong's tremendous energy, pride and orientation towards the future. But equally I could not help noticing the cultural and spiritual emptiness of its message. Can man live by work alone?

While it may appear to be an Asian New York, Hong Kong lacks the Big Apple's existential intensity and cultural dynamism. Serious book stores are hard to find and, when one does come across them, their shelves are full of management manuals and books on interior decorating and cooking.

When contemplating what is one of the most active and prosperous ports in the world, the logical comparison is with historical merchant city states such as Venice, Bruges and Hamburg. But at the height of their powers, Venice and Bruges had Carpaccio, Tiepolo and Memling. Hong Kong has large shopping malls full of European, US and Japanese department stores, which leave those who have to cross them when using the city's complex covered sidewalks with a sense of metaphysical fatigue and latent terror.

Could our own future be like Hong Kong's? So much energy and dedication, financial and commercial activity, and round-the-clock construction work devoted to purely material ends, devoid of history and spirituality.

Circling Hong Kong and the New Territories by helicopter, seeing at close range the mushrooming new cities of China's Guangdong province, I was struck by the incredible animal-like energy exuding from new cities such as Shenzhen and from Hong Kong's airport project, with its bridges, tunnels and railway links. Yet I was left with one big question: after completing the construction of these new cities and their transportation networks, what will the people do? Are they merely building for building's sake?

Of course, there is much more to Hong Kong than cultural emptiness. The vitality emerging from the island is based on constant work, social cohesion, a business-friendly, modest and honest state and – with the July 1 1997 deadline for the handover to China rapidly approaching – a galvanising sense of "dancing on the volcano".

If many citizens of Hong Kong crave a second passport and resident status elsewhere, many more seem ready to confront the Chinese "devil" with a remarkable sense of historical relativism and courage. This is no mean feat, given China's combination of communist mediocrity, totalitarianism and ingrained corruption.

Citizens of Hong Kong seem caught between contradictory emotions. They take pride in their achievements but also in their Chinese cultural identity. And there is no love lost between them and their British former colonial masters. They are aware both of the *artificiality* and *fragility* of what they have achieved and of the stark contrast between China's historical greatness and the mediocrity of its present rulers.

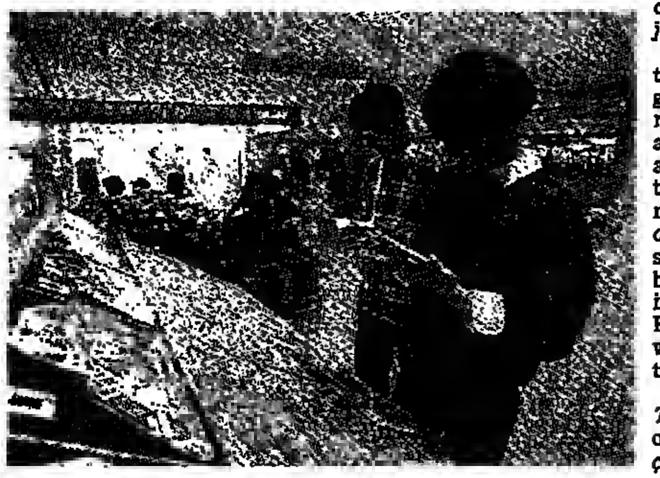
Can Hong Kong succeed in "civilising" China, in political and economic terms, while remaining a place of freedom (if not democracy) and a model and source of inspiration for the rest of China? Or will China's leaders unintentionally kill the goose which lays the golden egg – a goose which they were so keen to see thrive?

The "yacht people" – the richest and most westernised Hong Kongers – may be leaving the city for other shores, particularly Canada and Australia. But the poor's only choice is to stay. Meanwhile, the bulk of the middle classes have decided their best option is to give the Chinese the benefit of the doubt.

What Europeans can get from Hong Kong is a sense that they can prevail against the odds if they confront the future with energy, dedication and pragmatism. In short, they can learn to act like masters of their own destiny.

But we should also consider the more immediate and practical question of what Europe can do for Hong Kong in order to prolong its open and *dynamic identity after 1997*. The answer is simple: Europe should make the territory an important focus of its attention, and it should keep up the pressure on China by stressing that its behaviour towards Hong Kong will be one of the criteria on which it will be judged.

Europe must also emphasise that an open, honest society is good for business, and not the reverse. Europe should above all maintain a united front against the divisive tactics of the Chinese, who seek to play national commercial interests *off against one another. If it* succeeds in doing this, it will be proof that Europe has indeed learnt to follow Hong Kong's example by acting with pragmatism, determination and an eye to the future.


Centres of emptiness: Hong Kong's large shopping plazas can fill visitors with latent terror Picture: Tony Andrews

The author is deputy director of Paris-based Institut Français des Relations Internationales. He writes here in a personal capacity

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Trade achievement is in reality tripled deficits

From Mr Charles McMillion.

Sir, Even by today's political standards, Jeffrey Garten shows remarkable cheek in his Personal View of November 14. Leaving his 30-month post as the Commerce Department's under-secretary for international trade, he claims that "trade had become one of President Bill Clinton's most impressive achievements".

But during his short involvement in US trade policy, the current account deficits have almost tripled to world record losses of about $180bn this year – *all of it* attributable to manufacturing losses.

This amount is even greater than the federal budget deficit which has caused such concern and which threatens to eliminate Mr Garten's Commerce Department.

The exchange value of the US dollar has languished at or near historic lows against the other leading currencies. Unique among the G7, even in a business cycle recovery, US wages and benefits have continued to fall as good jobs are lost to imports and replaced by lower-wage, lower-skill (non-traded) service jobs.

US relations with China, Japan and Europe have deteriorated badly in the past 30 months as inconsistency has become the only hallmark of an ad-hoc, crisis driven morass of trade policies. Mexico has been transformed by an ill-conceived trade agreement, from a nation of slow but steady economic and political progress to a nation in very deep crisis.

We can only hope that Mr Garten's book-keeping and sense of accountability are better in his new academic role than they have been during his stay in Washington.

Charles W. McMillion,
president and chief economist,
MBG Information Services,
223 F Street NE,
Washington DC 20002-4928,
US

Where the buck really does end

From Dr. Elaine Sternberg.

Sir, It is refreshing to see John Kay recommend accountability ("Sharing responsibility is to pass the buck", November 17) instead of doctrines that undermine it – notably stakeholder theory and *the "customer corporation"*. Unfortunately, Kay's understanding of accountability is flawed by his overwhelming concern for managerial independence.

Kay is right that much of what passes for accountability in the UK public sector is *seriously counter-productive*, and that "Constructive accountability gives people freedom to make decisions but holds them fully responsible for the consequences". It is not true, however, that "The central distinction is between making people accountable for their individual actions and making them accountable for the overall result". Accountability for achieving ends properly includes accountability for the means used in doing so.

Equally, the fact that owner approval of business plans decreases agents' responsibility is not a sufficient argument against approval mechanisms. Accountability is not an end in itself: its objective is to ensure that agents pursue their principals' objectives. When delegated responsibility fails to further achievement of those ends, it is rightly reduced.

What Kay overlooks is that, as I argue in *Just Business: Business Ethics in Action* (Little, Brown; 1994), accountability requires clear objectives as well as clear lines of responsibility. Ministerial advice on means is pernicious not just because it obscures who is in charge, but because it typically introduces additional, *often incompatible*, ends.

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Losing out by screen-based education

From Prof Alex Callinicos.

Sir, I long ago gave up regularly reading Michael Prowse's "America" column. Why bother with the thoughts of House Speaker Newt Gingrich second-hand when the original is usually so entertaining? But Prowse's latest effort, where he predicts that universities will be replaced by "just-in-time *electronic education*, delivered to your living room by commercial companies" ("Endangered Species", November 20) is silly even by his exacting standards.

Thus Prowse asserts that "simple tests of cognitive ability can be administered in less than 30 minutes", and that these are "a better guide to job performance than academic degrees".

He offers no evidence for these sweeping assertions, doubtless because there is none. It is plain that Prowse commits the vulgar error of equating "cognitive *ability*" with the grasp of particular items of information. Yet genuine cognitive ability consists less in specific factual knowledge than in the capacity critically to analyse both data and opinions.

Universities are good at helping students develop this capacity in part because – in the US at least – they teach in small groups where participants are encouraged both to put forward their own ideas and to examine those of others. All this would be lost if Prowse's dream of long-distance "screen-based education" became reality.

Prowse complains of university education: "We do not know if what we have learnt will be relevant". It is in the nature of intellectual progress that it cannot be predicted. This makes a strong case for providing students with the understanding of general principles and the critical skills that allow them to evaluate new developments. Prowse's "learning companies" would produce students whose heads were full of facts but who were unable to assess their significance. No doubt this would make it easier for him to pass on unchallenged the latest outpourings of what are humorously known as the *think-tanks of the New Right*. But why should anyone else find so dismal a prospect attractive?

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Too many scientists for a shrinking market

From Prof Steve Fuller.

Sir, In his explanation of "The force behind a dramatic century" (November 18/19), Professor Robert May neglects some salient facts for understanding the role of science in transforming contemporary society.

Despite his general misgivings about the public's understanding of science, May is pleased to report the relatively high percentage of British university students who graduate with science degrees.

Unfortunately, he fails to acknowledge that their rate of unemployment is close to twice that of the national rate (according to the Times Higher Education Supplement, December 1994). The reason is that universities have been slow to adapt to the post-cold war era. During the cold war, *30 per cent of science* graduates in the UK and US routinely worked in defence-related industries. Now too many scientists are being produced for a shrinking market.

The idea that these surplus scientists may work to increase the UK's economic competitiveness is equally spurious. Here one need only look to the increasing number of third-world matriculants in UK and US university science programmes. These people typically return to their home countries, often to be contracted for specific research projects by transnational corporations stationed in the UK and other first-world countries. Because of lower labour costs in the third world, these graduates are preferred to comparably trained first-world graduates. Consequently, we find places like Bangalore touted as the "Silicon Valley" of India.

May is wrong to think that science is insufficiently appreciated by the British public. Rather, policymakers such as he do not appreciate the larger global forces that determine how and why scientific knowledge is produced.

Steva Fuller,
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Other-world currency

From Dr Stephen Castell.

Sir, With reference to the continuing correspondence following Giles Keating's Personal View on e-money *(November 2), the real point* is that true cybercash is very likely to become a currency in its own right – the Ecu, or Electronic Cash Unit, as I have already christened it.

There will be no need for exchangeability of Ecus with "real" currencies provided one is able to do nothing but cybertrade – that is, as long as one can receive all the real goods and services ever desired by ordering them over the Internet and paying for them wholly in Ecus, transferred to and from balances held entirely in cyberspace NOT in bank accounts.

Once this happens, cyberspace will truly become "another sovereign country", with its own currency, and an economy immune from the predations of taxmen and so forth in the "real" world.

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Polls punish a powerbroker

Tom Burns on the gains made by the Spanish conservatives in Catalonia

Sunday's regional election in Catalonia, the prosperous north-east corner of Spain, delivered *two political lessons – one* for Spain as a whole and another for Catalonia.

The first message is that Mr José María Aznar, leader of the Partido Popular (PP), Spain's conservative opposition, has taken a big step forward on the path to replace Socialist prime minister Mr Felipe González. After more than doubling the PP vote in Catalonia, Mr Aznar looks all but unstoppable in the general elections which Mr González says will be in March.

The second is that moderate Catalan nationalism, as represented by Mr Jordi Pujol's Convergència i Unió (CiU) coalition, has suffered an important setback. Mr Pujol, who until recently supported Mr González's minority government in the Madrid parliament, now finds himself in the same position as his erstwhile ally: CiU has lost its majority in the Barcelona parliament.

Ever since the PP defeated the Socialists in European elections last year and won again in municipal elections in March this year, Mr Aznar has claimed that a new page is being turned in Spanish politics. The boast now rings more true than ever: the days look numbered for Mr González, in power since 1982; and Mr Pujol, who has held power for 15 years, has lost his hegemony over *his home turf.*


Out for the count: CiU leader Jordi Pujol faces tough choices Reuter

Both CiU, which was defending its record as Catalonia's governing party, and the Socialists – who as the traditional opposition party in the *area put themselves forward* as the only viable alternative to Mr Pujol – had an interest in keeping Sunday's vote to local issues. It was the PP, with only a token presence in the region, which took the gamble of designating the Catalonia vote a test of national opinion.

The PP's candidates in Catalonia attacked CiU's pork barrel politics and its omnivorous desire to swallow everything that moves in Catalan society, from the media to the Barcelona football club. But mostly they concentrated their fire on the alliance that Mr Pujol established with Mr González after the prime minister was left short of a governing majority in Madrid in the June 1993 general elections.

CiU's support for the Socialists brought results, such as greater fiscal discipline and a liberalisation of rigid labour *legislation, that ought to gladden* the heart of conservatives. But in the past year, Mr González's party has been undermined by embezzlement allegations and by a judicial probe into accusations that it sanctioned an undercover war against Basque separatists in the 1980s. Mr Pujol was inevitably tarred with Mr González's brush.

When the Catalan leader broke with the prime minister in the summer, his policy switch was seen by many as too little too late. Mr Pujol ordered CiU to vote against Mr González's draft 1996 budget last month, thereby ensuring its defeat, but refused to back plans by Mr Aznar to move a censure motion against the prime minister that would have precipitated general elections this autumn.

What Mr Pujol obtained from Mr González was a formal commitment to dissolve parliament after Spain completes its European Union presidency next month and to stage the general elections in March. This was not enough for conservative-leaning supporters of CiU who switched to the PP.

CiU lost 10 seats, returning 60 members to the 135-member Catalan parliament, while the PP won 10 to increase its strength from seven to 17. This tally exceeded Mr Aznar's expectations, for Catalonia had consistently shunned Madrid-based conservatives in the area's local elections. It suggests that the PP will be close to an overall majority in general elections.

In the circumstances even the Catalan Socialists fared better than CiU, losing six seats to bring their strength down to 34, their worst result in the area since 1980. The beneficiaries of the lacklustre Socialist performance were Iniciativa per Catalunya, a coalition of communists and greens which increased its representation from seven seats to 11, and the radical nationalist Esquerra Republicana de Catalunya (ERC), which gained two more seats *for a total of* 13.

Mr Pujol, 65, who has dedicated his adult life to building up Catalonia's profile and the last 15 to extracting autonomous powers from Madrid for his homeland, now faces tough choices: Does he make overtures to the PP as he formerly did to the Socialists? Or does he eschew involvement with the big Madrid parties and seek an alliance with the narrowly Catalan-based ERC?

The second option risks increasing the tension between Spain and Catalonia, but Mr Pujol, shorn of his majority in Barcelona and with the prospect of a strong PP government in Madrid, may be forced to return to his Catalan roots. He can no longer play the power-broker in Spanish politics.

COMMENT & ANALYSIS

FINANCIAL TIMES
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Tuesday November 21 1995

Clinton wins a budget battle

It was almost business as usual in Washington yesterday. After six days of partial "shutdown", thousands of civil servants were back running the government, and congressional Republicans were back plotting how to downsize it.

Almost, but not quite. For, after months of confusion, last week's skirmish revealed that Mr Clinton has at last hit on an effective strategy for taking on the Republicans over the budget. First, cede the most important principles to your opponents. And second, earn maximum political capital by battling in a principled manner over the details.

As far as the first stage is concerned, Mr Clinton made the most important concessions during the summer, with his revised budget proposals. These accepted all the most revolutionary elements of the Republicans' proposals, leaving Mr Clinton arguing over details rather than principles. He wanted 10, not seven years to balance the budget, fewer cuts on the edges of the welfare system, and smaller, more progressive reductions in health programme spending and "middle class" taxes.

The temporary compromise for funding the government until mid-December, hammered out over the weekend, saw Mr Clinton cede ground on timing: the White House now accepts the principle of balancing the federal budget over seven years. Yet there is little doubt that the President comes out of the affair rather stronger than he was a few weeks ago.

First, though Republicans can claim a victory on principle, the deal does not involve Mr Clinton accepting any of their details. He will agree to a more rapid programme of budget cuts, but only if Congress re-jigs the pattern of spending and tax cuts to achieve a fairer distribution of gains and losses. Second, the President has united both his own party and large chunk of the electorate against the Republicans, who he has successfully portrayed as uncompromising, petty zealots.

This puts the Republican leadership, particularly Mr Bob Dole, the Senate majority leader, in a trickier negotiating position. With the Democrats united, his party will not be able to achieve veto-proof majorities. And, with the public blaming Congress rather than Mr Clinton for last week's gridlock, he must strive to seem a force for moderation.

Yet a good many Republicans would rather go down fighting than do anything to help either Mr Dole or Mr Clinton claim victory. Prior to last week, most believed that there would eventually be a budget deal, because all sides had an interest in coming to terms. But now they may be seeing the attractions of "taking the battle to the country" in next year's election, rather than agreeing to a messy compromise. As ever, investors should believe in the balancing of the budget only when they see it.

Lech's legacy

President Lech Walesa of Poland was a product of his time: a brave, stubborn, wily and instinctive leader who symbolised resistance to Soviet-backed Communist rule in his country. When he climbed the gates of the Lenin shipyard in Gdansk in 1980, as the leader of the first successful strike behind the Iron Curtain, his example was an inspiration throughout the Soviet empire. His defeat yesterday in the Polish presidential election by Mr Aleksander Kwasniewski, a former Communist, undoubtedly symbolises the end of an era. Yet it does not mark the defeat of what he fought for.

In many ways, Mr Walesa was himself to blame for his electoral failure. As president of Poland, he had shown himself both autocratic and erratic. He presided over no fewer than six governments in five years, in large part a result of his having undermined his own Solidarity movement, and caused the splintering of the liberal, anti-Communist forces on the right. The result was the return in 1993 of political parties with their roots in the Communist past. Now Mr Walesa himself has paid the price.

The abiding achievement of the Solidarity movement was not only the destruction of Soviet-backed Communism, beginning the wave of revolution which swept away the Soviet empire. The first Solidarity government demonstrated that radical market reforms could replace the sterile state economy with a dynamic private sector. Poland remains the best performer in eastern Europe, with export-led growth this year running at 6.5 per cent and with a flourishing small business sector. That is no mean feat.

On the other hand, the political confusion caused by the continuing warfare between President Walesa and his governments has delayed the further process of privatisation, and frustrated foreign investors. Polish voters have shown their disillusionment by electing Mr Kwasniewski.

It was certainly a genuine democratic decision, although the close result does demonstrate that the country is split down the middle. But as the leftwing Trybuna newspaper commented yesterday: "Poland has not been cut in half. It has just chosen between two politicians." That may yet prove to be true. Mr Kwasniewski insists he is not a communist, but a social democrat. He will pursue Poland's foreign policy ambitions of joining both the Nato alliance and the European Union. And his government remains committed to maintaining a market economy.

It is now up to the new president and his allies to prove that they can give new impetus to the structural reforms begun, but not completed, under Mr Walesa. That means pushing ahead with changes which cut the cost of the pension and social security system, speeding up privatisation, and fostering further growth of the private sector.

BBC and Diana

Last night's interview with the Princess of Wales was a coup for the BBC's *Panorama*, its current affairs flagship. The UK audience may be the largest ever achieved for a documentary; much of the rest of the world will also see the programme in the next few days. But since the existence of the programme was announced, the BBC has been vigorously challenged about whether it was right to show the programme.

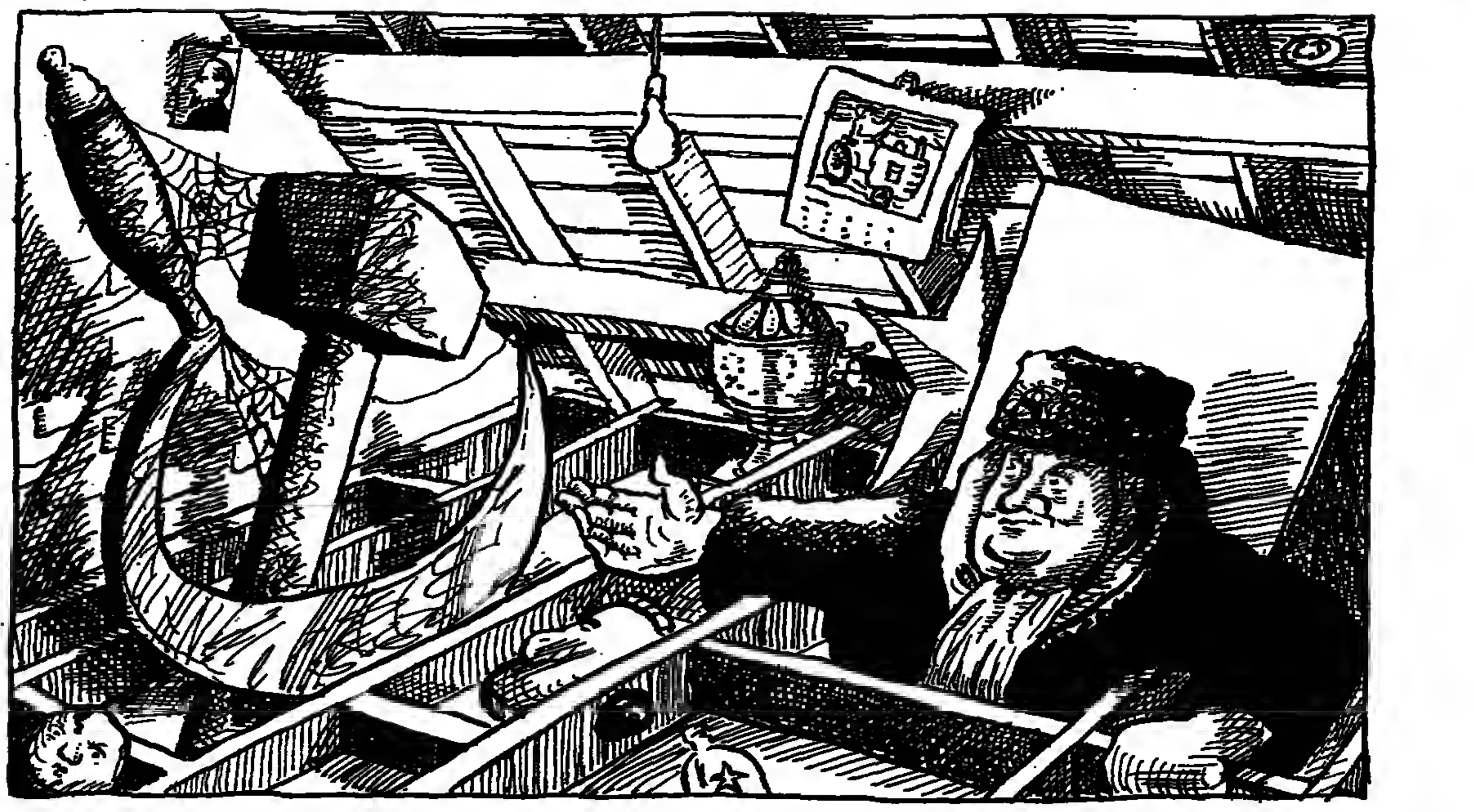
Among UK broadcasters, the BBC has a unique position. Established as a public corporation by Royal Charter, it is funded by a licence fee paid by every household with a television. Its programming must fulfil specified public service obligations.

Some of the recent accusations seem unfair. One complaint - that the BBC should have informed the Queen about the programme - makes too much of the "royal" nature of the charter. That document sets out the BBC's obligations to the UK people, not to the Queen. While it might have been courteous to tell the palace, that might also have infringed the conditions on which the interview was granted. A second complaint - that the BBC may make a great deal of money from overseas sales - also ignores the government's exhortation for the corporation to become more commercial.

However, two challenges have more substance. Some argue that the board of governors should have seen the programme before transmission. As the government's July 1994 white paper on the future of the BBC put it, the governors are "trustees" of the BBC's public interest commitment. But such an interventionist role would be an unfortunate departure from the past. The governors - particularly those on the present board - have rightly avoided such a role, even on issues such as Northern Ireland, arguably more contentious than the princess's views of the monarchy and her family.

Finally, some suggest that this kind of "populist" programme is not public service. It seems somewhat perverse to describe a programme with such an audience as against the "public interest". Nor is the programme likely to herald regular BBC forays into royal reporting, reliant as that is on rumour. If anything, the BBC spends too little time probing constitutional questions. It was, after all, Granada Television's *World In Action*, not the BBC, which produced the influential 1991 documentary into the royal family's exemption from income tax (which has since been removed). The more valid criticism would be if the BBC reporter failed to ask properly tough questions about his interviewee's contribution to royal difficulties.

The BBC, like the royal family, finds that its role is changing. Regrettably, its critics want to use the controversy provoked by that change to block programmes which the public wants to see.



Future forged in the past

Poland's voters no longer believe the former communists will bring back Stalinism, say **Anthony Robinson** and **Christopher Bobinski**

After two weeks of sober reflection, the Polish people have freely expressed their will in the second round of the presidential elections on Sunday. Mr Aleksander Kwasniewski, a former minister in Poland's last communist-era government, will next month replace Mr Lech Walesa as president for the next five years as a result of his narrow, three-point victory.

On December 23, the 41-year-old leader of the Democratic Left Alliance (SLD) will move into the white presidential palace next to the refurbished Bristol hotel on Warsaw's main avenue, Krakowskie Przedmiescie. Mr Walesa, the former shipyard electrician whose anti-communist Solidarity movement scuttled the Soviet empire, will move out.

"Lech Walesa, the man who changed the history of Poland and of the world, met the fate of Winston Churchill," said Mr Adam Michnik, editor of Gazeta Wyborcza and a former ally of the outgoing president. "He won a war and then lost an election."

Nothing so replete with symbolic significance has occurred in the former communist states of eastern Europe since the collapse of the Berlin wall in November 1989. It is a development which few could have imagined in the euphoric closing months of that year when communist regimes were collapsing week by week.

But much else that has happened in the last six years indicates that the political wheel is far from having come full circle.

The Soviet Union has disintegrated. The Red Army - which brought communism to the region in its kitbag in 1944-45 - has departed peacefully. The Comecon trading block and the convertible rouble have sunk without trace.

Privatisation and the rapid growth of a new antrepreneurial class have transformed the former centrally planned economies. Poland's economy is growing at 6 per cent a year and a new middle class has emerged.

Between 50 per cent and 70 per cent of the region's trade is now with member states of the European Union. Companies from central Europe now trade with their western counterparts using newly convertible currencies.

On the other side of the ledger, most of the region is again governed by politicians who received their training in Moscow and started their careers in the communist parties of their countries.

Poland, the first country to slough off communist rule, was also one of the first to re-elect politicians with their roots in the communist past in the September 1993 elections. Those elections were called by Mr Walesa in the mistaken belief that they would strengthen his position and bring in a right-wing government hostile to the communists. The opposite happened, and Poland found itself with a coalition government led by the SLD.

Nine months later the Hungarians followed the Polish example - but with a big difference. The SLD was led by Mr Kwasniewski, a young man who was a child during *the Stalinist period. The Hungarian* socialist party was led by a 60-year-old party veteran, Mr Gyula Horn, who as a young man had helped defend *communist party rule as* Soviet tanks crushed the 1956 Budapest rising.

In the Polish case the elections showed that millions of voters were frustrated and puzzled by the collapse of the powerful Solidarity movement. Mr Walesa had helped *undermine* the *alliance of workers*, church and intellectuals that brought down communism by insisting on running for president in *1990 against the wishes* of the Solidarity government led by Mr Tadeusz Mazowiecki. This split the movement and led to the collapse of the first post-communist government.

In both Hungary and Poland, the electoral victory of the communists revealed the inability of the inexperienced politicians who emerged after 1989 to communicate the need for reforms which widened the gap between rich and poor and boosted unemployment. The election results also reflected the dissipation of fears that a vote for the re-styled social democrats signified a return to Soviet control and Stalinist methods. And the disciplined former communists were helped in their return to power by the disunity on the *right*.

This was reflected in last weekend's presidential elections: Mr Walesa could have won had he been *able to garner the votes of former* Solidarity supporters and rightwing voters. Instead, they spread their votes among 12 alternative candidates in the first round of the presidential elections - as they had in the 1993 parliamentary elections.

He nearly succeeded. But the for*mer proletarian hero failed to* persuade more than half the electorate that he, not Mr Kwasniewski, was the man to lead Poland into the 21st century. By harping on the past and trying to revive memories of privation and oppression under the old regime he revealed himself as a man with little to say about the future. In the two televised debates he failed to provoke Mr Kwasniewski, whose careful replies, youthful image and protestations of belief in democracy and the market economy underlined the difference in style as well as substance between the two candidates.

One question now is what the future holds for the ex-president. Mr Walesa is only 52, too young to retire and too over-qualified to go back to work as an electrician.

His inclination will be to seek the leadership of the anti-communist opposition and try to forge an alternative government in time for the 1997 general elections. It is a con*frontational task which he could* well find more congenial than the frustrating role of head of state. As president, he often seemed ill at ease, *his limited powers constrained* by a coalition government with a secure parliamentary majority.

Over the last two years Mr Walesa deliberately made life harder for the leftwing government. He vetoed legislation, opposed finance bills which raised income tax, championed *pensioners'* demands for higher pensions and sent legislation to the constitutional court for review. He used his presidential *right to nominate the governor of* the central bank and the ministers at the head of the three "power" ministries - internal affairs, defence and foreign affairs.

With Mr Kwasniewski as president the tension between government and president will disappear. The task of drawing up the 1996 budget and pressing ahead with planned reforms of the health and social security systems should be easier.

The budget debate begins in parliament next week against the background of rapid export and investment-led growth and slowly falling inflation. This week millions of Poles will get the opportunity to buy coupons giving them a stake in the 15 national investment funds set up to manage more than 400 state companies included in the *first round* of the *mass privatisation* programme.

Over the coming months the government and president Kwasniewski *will seek to reassure Poles* that democracy and the economy is safe in their hands. They will also be keen to reassure the international community that Poland intends to press ahead with its bid for membership *of* the European Union and Nato.

Paraphrasing former US president Lyndon Johnson, after December 23, Mr Walesa will no longer be inside the Polish tent looking out but outside the tent looking in. Poland could well find itself with both a more efficient government and a more effective opposition as a result of last weekend's vote. That would be good for democracy on both counts.

Why Czechs will re-elect a champion of capitalism

The Czech Republic is the only central European country from the former Soviet empire not to have elected former communists to power. This is partly to do with the nature of the Czechs, a phlegmatic people who became the most Germanised of tha Slavs under the Hapsburg empire, and developed the most advanced economy between the two world wars.

But it is mainly due to the personality and political single-mindedness of Mr Vaclav Klaus, the prime minister. After the "velvet revolution" of 1989, he split the amorphous Civic Forum which emerged from it, with a vague social democratic programme. He then led his Civic Democratic Party to victory in the June 1992 elections on a Thatcherite sounding programme of free market reforms and rapid, mass privatisation.

Mr Klaus is the only post-communist leader to grasp the importance of building a strong party organisation capable of delivering votes. He also tirelessly promotes free market philosophy through the media and meetings with voters and students. And he consistently attacks all forms of "leftism" and "illusions of a third way between capitalism and communism".

The former professional economist faces elections in June next year. The prognosis: he will be re-elected.

· OBSERVER ·

Words are very cheap

■ Cyril Ramaphosa, secretary-general of the African National Congress, doesn't like working in a building called Shell House, the name of the block which houses the ANC's headquarters in Johannesburg. The ANC bought it in 1991, when Shell moved to a new building.

"We have no business to be in a building called Shell when Shell is proving to he so insensitive to the plight of ordinary men and women and children in Nigeria and also responding so negatively to calls that are being made on the question of environmental rights," Ramaphosa said yesterday.

So change the name - what's the big deal? After all, according to Ramaphosa, the building was never even owned by Shell, but simply had been leased by it prior to the ANC's arrival. It should be simple enough. It can't really be possible, surely, that Ramaphosa is just tilting at this particular windmill in order to appear politically correct?

Field trip

■ Greece's privatisation programme is limping along so slowly that Dimitris Paraskevas, the government's chief expert, has decided to do a bit of moonlighting.

Paraskevas, an energetic lawyer who runs the industry ministry's privatisation secretariat, is off to Lusaka for a couple of weeks - under UN auspices - to advise Zambia how to sell off its state-owned bits and pieces.

Paraskevas's return is anxiously awaited by Olayan, the Saudi group that is trying to buy Piraiki-Patraiki, a bankrupt textile producer, and TVX Gold of Canada, which hopes to take over a state-owned mine in northern Greece. Their bids have been accepted but contract negotiations have been dragging on for more than a year. They and the European Commission have accused Greece of procrastinating over privatisation.

Maybe Paraskevas will come back with plenty of fresh ideas for prodding Greek politicians into action. Don't hold your breath.

Peace squawks

■ Keeping Serbs, Croats and Moslems from each other's throats was relatively a doddle, reports Observer's spy inside the Wright-Patterson Air Force Base.

By far the more testing task was keeping the peace between Richard Holbrooke - the *state* department's 'Mr Europe' - and Foreign Office political director Pauline Neville-Jones, who was representing Britain at the talks. "Ohio isn't big enough for two egos that size," was one overheard comment.

Neville-Jones may have been working off her frustration at being pipped to the post of next British ambassador in Paris by veteran Euro-expert Michael Jay.

That appointment had been generally expected, however, and the person most miffed by its premature publication is the present incumbent Sir Christopher Mallaby. He is not due to leave until next summer, and does not relish spending all that time as a lame duck.

Turkey to control

■ How to get the best out of your turkey. Christmas is approaching and Observer is happy to pass on the following tip culled from the pages of Volando, Aeroperu's inflight magazine. "Make the turkey drink a lot of spirits before killing it to improve the taste and to make the killing easier..."

Don't call us

■ *Electronic* banking doesn't always go at digital speed - not in Germany, at any rate. First, you must queue at the post office.

When in *September* Deutsche Bank began - amidst great fanfares - its ambitious Bank 24 direct bank, it was overwhelmed with the response. Indeed, it was hit by a tidal wave of interest, with more than 100,000 people saying they wanted to hear more about Bank 24. Naturally, those wanting to open accounts expected immediate results.

They were out of luck. For Germany has a money-laundering law which requires proof of identity for accounts. And since the whole point of direct banking is lack of personal contact, there are no branches where people can simply show identity cards. So Bank 24 has to send account details to post offices, where tha new account holders can collect them after officials have checked they are who they say they are.

If you are wondering why all this palaver is necessary, so too are many of the would-be customers for Bank 24, who have been left *underwhelmed by it all*.

While it copes with the backlog and tries to chivvy the post office into action, Bank 24 has cut its spending on print and *television* advertising by 30 per cent for the next two weeks. Its stunningly creative slogan - "Make your declaration of independence with Bank 24" - is only being shown four times a week on TV instead of eight. For which small mercy, much thanks.

Diplomatic choice

■ What's the difference between a camel and a diplomat? A camel can work for two weeks without drinking. A diplomat can drink for two weeks without working.

The Financial Times

50 years ago

Fight over nationalisation
Industrialists throughout the country have been roused to *action* by Mr *Herbert Morrison's* statement on Monday of the Government's sweeping nationalisation proposals. *Opposition is being rallied* to further encroachments on private enterprise.

The legislative task the Government *has set itself* was described by one writer yesterday as colossal. If coal, transport, iron and steel, electricity and gas come under the State, it was pointed out, the Government would have complete control of the physical prime movers of the country's industrial life. On the Stock Exchange yesterday the chief effect of the announcement was seen in power shares.

Among industrial interests, opposition has for some time *been hardening against the* Government's intention to give first priority to a widespread programme of nationalisation.

"The Government is saddling itself with a programme that will take years to implement to the exclusion *of* other matters," an industry spokesman declared.

Ha pointed out that it was now clear that the Government's plans were being directed towards a complete changeover of the country's economic life.

FINANCIAL TIMES
Tuesday November 21 1995

Kwasniewski elected Polish president on 51.7% of vote

Ex-communist clinches narrow win over Walesa

By Christopher Bobinski in Warsaw

Mr Aleksander Kwasniewski, the 41-year-old leader of the former communist Left Democratic Alliance (SLD), yesterday clinched a narrow victory over Mr Lech Walesa in Poland's presidential elections.

Final returns from the weekend's contest revealed a country divided between the supporters of the disparate Solidarity movement and those ready to entrust power to former communists.

Mr Kwasniewski won a 51.72 per cent share of the poll, which saw a record 68 per cent turn out. It came at the close of an often bitter campaign during which Mr Walesa's supporters warned that a vote for their opponent meant a return to the miseries of communist rule.

Mr Walesa, in a pugnacious mood, called on his campaign committees to stay in existence and prepare for parliamentary elections scheduled for 1997. "We will win beck everything in a short time," he said.

The ministers for the interior, defence and foreign affairs indicated that they would resign following Mr Walesa's defeat. Under Poland's interim constitution, the president has special responsibility for these three ministries and the three men were appointed at his request.

Shares fell back slightly on the Warsaw Stock exchange where prices and volume bad been depressed for some weeks, but the initial reaction from business was muted. The Warsaw Stock Exchange's main indicator dropped by 3.8 per cent on the news of the SLD candidate's victory, but a western banker who declined to be identified said there had been no nervous movements by foreign investors.

Business is awaiting Mr Kwasniewski's first moves as president before passing judgment on the prospects for his five year term.

The head of one Warsaw-based western investment fund, noting Mr Kwasniewski's western manner and grasp of economic issues, said that he expected capital inflows to accelerate. "Everything depends on what he does about privatisation and what the SLD does about the National Bank of Poland (NBP), the central bank" he said.

Mr Kwasniewski's policy towards the central bank, whose chairman, Ms Hanna Gronkiewicz Waltz, ran unsuccessfully in the campaign and is determined to stay in office, will be seen as a major test of his commitment to Poland's market reforms.

Under the constitution, Ms Gronkiewicz Waltz, who has maintained tight monetary policies, has security of tenure until 1998. However, changes in the banking law planned for next year could limit the bank's independence and force her to resign.

Mr Kwasniewski's election means the former communists in coalition with the Polish Peasant party (PSL) have control not only of the presidency but also the government and both houses of parliament.

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A revolutionary result, Page 15
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Mandela in protest to Shell chiefs over Nigeria

By Roger Matthews in Johannesburg and Caroline Southey in Brussels

President Nelson Mandela of South Africa called in executives of Shell South Africa yesterday to complain that the oil group was not doing enough to exert economic pressure on the Nigerian regime.

Mr Mandela also called for a regional summit to discuss measures against Nigeria's military leaders, in the wake of the execution of nine minority rights activists this month.

Later, Mr Cyril Ramaphosa, secretary general of the African National Congress, suggested Britain was considering a possible freeze of Nigerian assets. In London, the Foreign Office said it was "not aware of anything along those lines".

Mr Carl Niehaus, an ANC spokesman, said Mr Mandela had expressed strong disappointment that Shell had not done more "to show its outrage about what was happening in Nigeria and then to place pressure on the Nigerian regime because of the economic power that it holds".

Mr Mandela "very strongly" raised the question of Shell's planned investment in a $3.6bn liquefied natural gas project. Mr Niehaus said that in spite of Mr Mandela's strong plea there had not been a substantial positive response. Shell South Africa directed inquiries to its head office in London, where officials said it was for Shell South Africa to comment on the meeting.

In Brussels, EU foreign ministers agreed to tighten an arms embargo, freeze aid and extend visa restrictions to all members of the Nigerian government. Although they did not back an oil embargo, they left open the possibility of tougher measures. These could include an oil embargo, supported by Germany and Sweden, freezing of assets and scrapping preferential trade access.

The ministers agreed that the EU needed to discuss "tougher measures with its partners, including the US", but pointed out the EU took only 30 per cent of Nigeria's oil exports.

Mr Ramaphosa, who on Friday held talks in London with Mr John Major, the British prime minister, said he was disgusted at the way Shell had handled recent events, but was encouraged by signs of a stiffer response by the British government.

In addition to a ban on arms exports, he said "they have said they would also be taking other measures, such as freezing the assets of the military dictators and their civilian collaborators, as well as restricting their movements in the UK".

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South Africa survey, See Separate Section

Revlon sale

Continued from Page 1

were fading when Mr Perelman mounted his hostile bid. He has since faced a long struggle to turn the company round.

Revlon is still burdened by heavy debts of at least $1.5bn. However, Mr Perelman has invested heavily in marketing by signing multi-million dollar exclusive contracts with the actress, Melanie Griffith, and supermodels such as Cindy Crawford and Claudia Schiffer.

Since Mr Jerry Levin's appointment as chief executive in 1991, Revlon has stepped up product development, notably by launching its highly successful ColorFast lipstick last year. It has also concentrated distribution on mass market outlets, rather than upmarket stores.

Daiwa assets

Continued from Page 1

global retrenchment envisaged, although serious, is unlikely to cripple it. But the damage to the bank's reputation at home and abroad from the spectacle of punishments being meted out by international regulators may prove irreparable.

Several leading customers in Japan have already announced their intention to withhold business from Daiwa.

That damage has cast a shadow over Daiwa's prospects of surviving as an independent entity, and the bank is now understood to be considering a possible merger with a larger institution, most probably Sumitomo. Such a merger would produce the world's largest bank by deposits.

Bosnia territory claims drag peace talks past deadline

By Laura Silber in Dayton, Ohio, Harriet Martin in Sarajevo and Lionel Barber in Brussels

US President Bill Clinton's efforts to end the war in Bosnia ran into unexpected difficulty yesterday as haggling over territory dragged on for many hours beyond the deadline set by the US organisers of peace talks.

Negotiations between the leaders of Serbia, Croatia and Bosnia, in progress for three weeks, showed no sign of a breakthrough at 1500 GMT, which was the time by which US officials had promised either a signing ceremony or a formal announcement of failure.

The delays cast doubt over the viability of an elaborately crafted Bosnian peace process, which is supposed to culminate with the deployment of up to 60,000 Nato-led troops, including 20,000 US soldiers, to implement a settlement.

There were further signs of western hesitation to commit ground troops following warnings by senior US Congress officials that they had serious reservations about sending troops to the region.

Britain will participate in the planned Nato-led peacekeeping force in Bosnia only as long as the US and France do, and could follow American plans to withdraw after 12 months, a senior British official said yesterday.

The British official said in Brussels the Nato-led peacekeeping effort was part of a "single effort" and an early US pull-out would trigger withdrawal by other forces.

Officials close to the talks said the biggest sticking point was the width of the corridor linking Serbia with the town of Banja Luka and other Serb-held land in northern and western Bosnia.

Early yesterday afternoon in Dayton, Ohio, where the negotiations are being held, Bosnian officials said the talks could drag on into the evening, despite earlier pledges from Mr Warren Christopher, the US secretary of state, that Washington's patience was exhausted.

A growing body of opinion in the US Congress is arguing that the US should shore up the embattled Bosnian government with money and arms but avoid putting American lives at risk.

At the Dayton talks, Mr Slobodan Milosevic, the Serbian president, has pressed for the widest possible land corridor, to ensure the greatest access for his government to the Serb zone which will make up 49 per cent of a future Bosnian state.

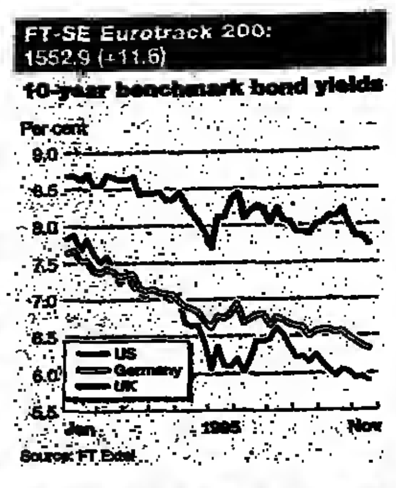
The Sarajevo government is strongly resisting any territorial concessions in the area of the corridor, on the grounds that such a move would dash all hope of knitting together a unified Bosnian state. However, Mr Alija Izetbegovic, Bosnian president, faced not only strong US pressure to give ground but an increasingly united Serb-Croat front.

THE LEX COLUMN

Fudging the budget

The US budget agreement thrashed out over the weekend has failed to impress the financial markets. Having rallied strongly during last week's disarray, US bonds and stocks made early gains yesterday but fell back in later trading. This is less illogical than it seems. The markets have so far been able to maintain their upward momentum because investors were confident some sort of accommodation between the White House and Congress would be reached. A deal has duly been done, but its credibility, as the market has always feared, is in doubt. The deal allows both sides to return to the table but the detail still has to be thrashed out by mid-December, when temporary funding runs out. Worse, investors are waking up to the danger that by front-loading tax cuts and postponing spending cuts an agreement may fail to sort out the budget deficit problem once and for all.

Since the US market has already discounted rate cuts on the back of an agreement, US bonds are likely to prove vulnerable to bad news. A sell-off on the scale of 1994 is not on the cards – 10-year US bond yields are still 75 basis points above their low of January 1994 – but the 60 basis point differential between German and US yields is likely to shrink. The German inflationary outlook appears increasingly favourable and rate cuts are likely to be hastened as other European banks ease monetary policy. Although expectations are that the Bundesbank will cut before Christmas, little has been discounted in the market. Even without a correction, German bonds are likely to outperform US bonds in the medium term.



Source: FT Extel

The underlying problem is the hollowing out of the Japanese economy. Customers in the automotive and electronics industries have been shifting production abroad to combat the rising yen. With recession cutting into cash flow, and the high cost of overseas sites, Japan's chemicals companies have found it difficult to follow suit. That has given local Asian competition a head start. South Korea is now a net exporter of chemicals and the normalisation of relations with China will bring access to a huge new market. Both the Koreans and the Taiwanese seem intent on building market share, whatever the short-term cost to profits. To respond to those challenges, the Japanese will require more drastic action than anything seen to date.

Japanese chemicals

Japanese chemical companies are punching above their weight. The decision by Mitsubishi Chemicals, already the biggest of the Japanese producers, to combine its plastics business with smaller rival Tonen is an attempt to beef itself up. The merger will make Mitsubishi one of the world's largest manufacturers of polythene and plastics for film, ropes and injection moulding. With the Japanese chemicals industry dogged by slack demand and weak prices at home and stymied by a strong currency abroad, any move to bring economies of scale and save on costs is welcome. But what is really needed are production cuts. Last year's merger of Mitsubishi Chemicals with one of its sister companies signally failed to deliver these.

Rexam

Like much of the paper and packaging industry, Rexam is suffering from rising raw material costs and customer destocking. Like Arjo Wiggins Appleton and De La Rue, its management seems to have been caught out by the speed and severity of the downturn. In August it expected 1995 profits to match last year's £230m ($356m). Now it is predicting a 20 per cent drop.

But Rexam's problems run deeper. Over the past eight years, the group has sold itself to the City as a management story – a sleepy printer transformed into a high-quality, high-growth packaging business by a whirlwind of acquisitions. Now it appears the group is just as cyclical as ever. Moreover, many of the current problems lie in the coatings division – which has been the focus of much expansion and is ostensibly capable of making returns of 12 per cent. This year Rexam as a whole will be lucky to manage 8 per cent. There are also difficulties in the building and engineering division, principally a window frame business, which a truly focused company would have sold years ago. The part that seems to be running best is the inherited printing operation.

The trading worries will only make it more difficult to find a successor to Mr David Lyon, the chief executive, and his chairman. Rexam has been trying to fill these posts for over a year now and no appointment is expected until spring. Part of the delay has been due to the present management's insistence that any successor carries on with the same strategy. Under the circumstances, that is too much to ask.

UK executive pay

The argument over the Greenbury report on directors' remuneration is far from over. One of its most hard-hitting recommendations – that the full cost of pensions should be disclosed – is being quietly watered down.

A £100,000 ($155,000) pay increase for a long-serving director in a final salary scheme can add as much as £1m to the value of his or her pension. But perversely, while the pay rise may attract comment, the pension increase usually does not. The reason is that companies do not have to declare the pension increase to their shareholders – even though they ultimately have to foot the bill.

The Greenbury report rightly argued that shareholders should be told the full facts. Yet plenty of companies which would have to declare big increases are less than keen. They would prefer to fudge the issue by spreading the impact of pay increases on pensions over several years.

This would be a big step back from the original report. Shareholders should be told the full implications of a pay rise when it comes into effect, not after an arbitrary period of years – perhaps even after the director has left. But even spreading the impact would be better than the status quo; it would still catch the worst abuse – gratuitous pension-boosting pay increases at the end of a career. The danger is that companies and actuaries will drag the argument out, with no action taken. The Stock Exchange's reluctance to take any decision suggests that this risk is real.

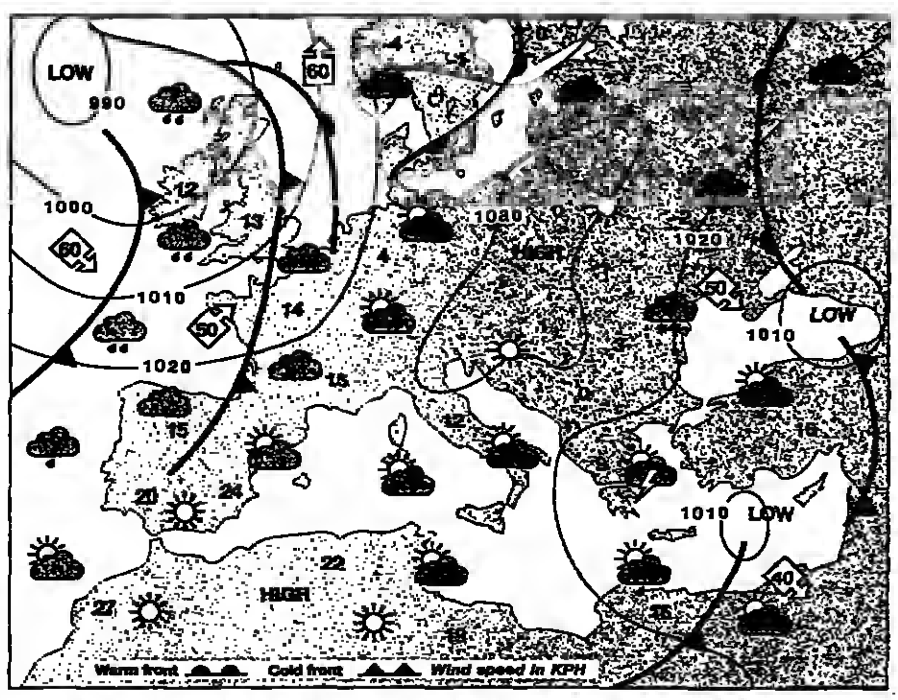
FT WEATHER GUIDE

Europe today

A high pressure system over Slovakia will promote dry and mainly sunny conditions in central and eastern Europe. Temperatures will remain below zero north of a line from Berlin to Bucharest where there will be patchy fog. A depression in the Atlantic will produce abundant rain clouds over the British Isles, western France and north-western Spain. The Spanish costas, however, will see plenty of sun. A southerly flow between the two systems will direct dry air with sunny spells over eastern France, the Alps, Germany, the Low Countries and Denmark. Showers will develop in the south-eastern Mediterranean region as a low moves towards the Black Sea.

Five-day forecast

Low pressure between Iceland and Scotland during the next couple of days will give unsettled conditions with wind and rain over the British Isles, the Low Countries and southern Scandinavia. The Norwegian south coast will be especially wet. It will also be rainy in the Mediterranean region and on the Turkish Black Sea coast. However, high pressure will promote settled but cold conditions in eastern Europe. Snow is expected on higher ground in the north-east Alps.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	30
Accra	shower	31
Algiers	sun	22
Amsterdam	fair	8
Athens	rain	9
Atlanta	sun	17
B. Aires	fair	22
B.ham	shower	12
Bangkok	fair	31
Barcelona	fair	17
Beijing	sun	14
Belfast	shower	12
Belgrade	snow	0
Berlin	sun	0
Bermuda	fair	21
Bogota	shower	20
Bombay	sun	34
Brussels	fair	8
Budapest	sun	2
C.hagen	sun	2
Cairo	shower	21
Cape Town	shower	28
Caracas	fair	31
Cardiff	rain	13
Casablanca	sun	23
Chicago	snow	0
Cologne	fair	7
Dakar	sun	32
Dallas	sun	22
Delhi	sun	27
Dubai	sun	32
Dublin	shower	13
Dubrovnik	fair	8
Edinburgh	shower	11
Faro	fair	22
Frankfurt	fair	2
Geneva	cloudy	8
Gibraltar	sun	21
Glasgow	rain	11
Hamburg	sun	1
Helsinki	cloudy	1
Hong Kong	fair	26
Honolulu	fair	27
Istanbul	rain	7
Jakarta	shower	30
Jersey	shower	15
Karachi	sun	31
Kuwait	sun	31
L. Angeles	sun	22
Las Palmas	sun	26
Lima	cloudy	22
Lisbon	fair	18
London	shower	12
Lux.bourg	fair	8
Lyon	fair	11
Madeira	fair	21
Madrid	sun	16
Majorca	sun	20
Malta	sun	18
Manchester	shower	12
Manila	shower	31
Melbourne	fair	24
Mexico City	fair	18
Miami	fair	27
Milan	sun	8
Montreal	snow	3
Moscow	fog	-6
Munich	sun	-1
Nairobi	thund	26
Naples	sun	10
Nassau	fair	27
New York	fair	11
Nice	cloudy	14
Nicosia	shower	17
Oslo	cloudy	-1
Paris	fair	11
Perth	fair	31
Prague	sun	-3
Rangoon	fair	32
Reykjavik	rain	6
Rio	cloudy	26
Rome	sun	12
S. Frsco	fair	17
Seoul	sun	9
Singapore	thund	31
Stockholm	fair	-1
Strasbourg	fair	3
Sydney	shower	19
Tangier	sun	23
Tel Aviv	fair	21
Tokyo	fair	14
Toronto	snow	3
Vancouver	rain	10
Venice	fair	7
Vienna	sun	0
Warsaw	fair	-1
Washington	fair	12
Wellington	fair	14
Winnipeg	fair	-6
Zurich	sun	1

هكذا من الأصل

Taking on the competition: Nelson Mandela presents the Rugby World Cup to South Africa's captain Francois Pienaar. Can the country win the battle against unemployment and attract substantial foreign investment?

SOUTH AFRICA

Nettles that need grasping

The challenge is to create the framework to attract substantial foreign investment and labour-intensive industries, says Roger Matthews

The South African economy has been running this year as fast as its inherited constraints will allow but as a response to the enormous pace of political change that is still far too slow.

This year's expected growth rate of 3 per cent, with a marginally higher figure likely in 1996, represents scarcely a drop in the sea of popular expectations. Growth of only 3 per cent means unemployment will keep on rising. It already stands officially at 33 per cent of the workforce but among blacks the figure for those without formal work is closer to 50 per cent.

Sustained growth of 6-7 per cent is needed, ministers and private sector economists agree, first to absorb new entrants to the job market, and then to begin making inroads into the huge pool of longer-term unemployed, many of whom are unskilled and have never worked.

No statistics better illustrate the extent of the long-term challenge facing the African National Congress, its coalition partners, and the white-dominated business community. All other political, social and racial reforms may ultimately count for little if they cannot jointly create the framework that will attract substantial foreign investment and labour-intensive industries.

The ANC is sitting pretty, politically. President Nelson Mandela bestrides the political stage, at 77 a figure of unique moral authority whose one-nation message of reconciliation continues to blunt, if not bury, the inevitable tendencies towards recrimination. His party, through the November 1 local elections, has increased both its share of the popular vote and its grip on the machinery of government.

As Cyril Ramaphosa, the ANC secretary-general, acknowledges, the party now has three and a half years before the next general election – and Mr Mandela's departure from the political scene – to demonstrate that it can meet some of the aspirations of the people who voted it into power in April 1994.

Building a stable platform from which to launch a brighter future has consumed much of the past 18 months. The first draft of the final constitution has been published, a mass of legislation has worked its way through parliament, including new laws on industrial relations and education, local government structures are being put in place, land reform is under way, and ministers are gradually learning the skills of bureaucratic management.

But the overall process is slow, and is weighed down by the ANC's commitment to seeking consensus, a process which can be criticised as a denial of leadership by those of Thatcherite persuasion.

In the absence of a viable alternative party of government for the foreseeable future, the ANC may already have succumbed to the twin beliefs that it can best avoid mistakes by shunning short-term solutions and that it has the political latitude to plan at its own pace for the next century. The price for such an assumption may, however, be higher than the ANC realises.

The soaring crime rate, especially in Johannesburg, where armed men now hijack vehicles in the city centre during the middle of the day, could already be inflicting long-term damage on international views of the country. George Fivaz, the national police commissioner, said recently that murder, rape and armed theft were "threatening to rip our civilised world apart".

More than 110,000 vehicles have been stolen or hijacked in the past year, an increase of 30 per cent. Detection rates and police morale are both low, encouraging the further development of organised crime and, increasingly, the trade and consumption of narcotics. There is also growing anecdotal evidence of business-people abroad turning down postings in South Africa because of the unacceptably high risks.

Negative images could in turn limit the potential for tourism, where the country has a vast range of natural advantages, and a sector which remains probably South Africa's best single hope for creating large numbers of geographically dispersed jobs and checking the deterioration in the balance of payments. The ministry of tourism is currently conducting one-day workshops throughout the country, which will lead to the publication of a second green paper, probably to be followed by a white paper, and then, sometime next year, the formulation of a tourism policy.

Selecting priorities for an untried government with a plate piled high with problems was always going to be tough. It is not made easier by the dual burdens of being head of government and of the state falling on one elderly man. The case for the appointment of a prime minister responsible for the daily management of government would appear strong, and has been argued within the ANC. It is vigorously supported by some senior members, but differences over the selection of a candidate appear to have blocked further moves.

Such an appointment might also help articulate a more dynamic economic message to the rest of the world, much of which has yet to be persuaded of the warmth of South Africa's embrace for the private sector. Chris Liebenberg, the minister of finance, and Chris Stals, the governor of the Reserve Bank, have been justly praised for their commitment to fiscal discipline, but the modest amount of foreign long-term capital coming into the country underlines how much more vigorously South Africa needs to sell itself abroad.

Even the success of fiscal policy may be open to question, with Mr Liebenberg accepting that the budget deficit, as a percentage of gross domestic product, may this year fail to hit its 5.8 per cent target. This will, in turn, swallow more of the already low level of domestic savings and reduce further what is available for private and public sector investment.

Government debt already absorbs nearly one in five rands collected by the creaking revenue machinery, and the demands on expenditure are still subject to unexpected items popping out of the post-apartheid woodwork. Such strains may well intensify as inexperienced local authorities struggle, and sometimes fail, to keep within their own budgetary limits. All of this allows the government very little economic leeway, and, with the rand now fully subject to international pressures, places a greater premium on maintaining internal political stability.

Apart from the occasional sharp exchange, the government coalition has held together well. Its Achilles' heel, and that of the country more generally, is the volatile situation in KwaZulu/Natal, and relations between the ANC and the mainly Zulu Inkatha Freedom Party, headed by Chief Mangosuthu Buthelezi, the minister of home affairs.

More than 100 people die most weeks in the province as a result of criminal and political violence, and relations between the ANC and IFP show no sign of improvement. Disputes over electoral boundaries and the future role of traditional leaders forced the postponement of local elections on November 1, and in the present climate it is difficult to see how they will be successfully staged on March 27.

Perhaps even more hazardous would be an election result that gave the ANC control of the largest urban areas. Chief Buthelezi has said the poll will be an issue of life or death for the IFP, with defeat opening the way to more violence, and victory to the autonomy of the province, neither of which is acceptable to the ANC.

Resolving that issue and many others will require patience, a virtue with which the ANC appears well endowed. It has refused to be rushed into decisions, which means it has made relatively few mistakes. While the ANC's confidence is growing, its political opponents have yet to regroup, and the international climate remains generally benign.

What the ANC needs to demonstrate is a readiness to grasp the immediate nettles which could adversely affect its ability to deliver longer-term social and political goals.

IN THIS SURVEY

Editorial production: *Roy Terry*

■ **Politics:** by Michael Holman

A remarkable result

While the ANC was celebrating its success, the other parties were in a sombre mood

A jubilant Nelson Mandela gave the go-ahead, the music blasted out, and an elbow-pumping, high-stepping victory dance at a Johannesburg hotel got under way.

For the second time in 18 months, South Africa's president was celebrating a remarkable election success.

The first event marked the African National Congress (ANC) triumph in the country's first democratic poll, held in April 1994. On this occasion, it was the ANC's resounding success in South Africa's local government elections last month.

The party had matched its support in the 1994 general election, securing just under two thirds of the popular vote in a 66 per cent turn out.

Sceptics had been proved wrong. Slow delivery on general election promises – notably the pledge to build 1m homes by 1999 – had neither undermined ANC support, nor enthusiasm for the democratic process, though Mr Mandela's warning that the party must now "roll up its sleeves" indicated that he took neither for granted.

However, political analysts have been cautious about drawing too many conclusions from the outcome.

Voting did not take place in troubled KwaZulu/Natal, where more than 2,000 people have died in political violence since January this year. Nor was polling possible in Cape Town, in the Western Cape, postponed because of a dispute over electoral boundaries.

Analysis is also made difficult by the complicated electoral system that effectively gave more weight to constituency minorities, usually – though not always – white.

Nevertheless, the outcome provided insights and pointers about the contestants and their prospects for the next general election, due to be held in 1999.

While the ANC was celebrating its success, the other parties were in a sombre mood.

Former president F W de Klerk's National Party had lost support among a vital group – the Coloured (mixed race) voters in the Western Cape, whose backing had been critical to the party's performance in the 1994 poll, helping it win control of its one and only provincial assembly.

Nor had the election brought much fresh talent to a party badly in need of a new generation of leaders.

For the right-wing Conservative Party, the local government election marked its eclipse by General Constand Viljoen's Freedom Front, but that was scant comfort for the party that seeks an Afrikaner homeland.

It secured barely 5 per cent of the vote – not insignificant, but hardly enough to provide the mandate it seeks for a concept that is likely to remain no more than a dream.

Meanwhile, the Democratic Party, home to the liberal cause, fought back from its poor showing in 1994. In securing around 3 per cent support, the party recovered some of the ground it had lost in its traditional stronghold, the wealthy white suburbs of Johannesburg.

Its performance owes much to its articulate and pugnacious leader, Tony Leon, and the high profile achieved by the parliamentary performance of its energetic MPs, but the party is unlikely to be more than a human rights watchdog, important a function though that is.

For Chief Buthelezi's Inkatha Freedom Party, the outcome confirmed what had long been suspected – that it enjoys little support outside its ethnic constituency – the country's 9m Zulu's, most of whom live in KwaZulu/Natal.

But perhaps above all, the election revealed that the National Party is still burdened by the baggage of its past, and that the party that ruled apartheid South Africa for four decades is not meeting the challenge posed by the transition to democracy.

Its leadership is dominated by a tired old guard, devoid of ideas and uncomprehending about the radical measures it has to take if it is to remain a force in the new South Africa.

Senior officials make no secret of their belief that Mr de Klerk has had his day. "But who is his successor?", asked one party veteran.

The party's predicament was highlighted by its reaction to the news that broke on the eve of the poll. Much to the consternation of the right, KwaZulu/Natal's attorney general decided to charge former defence minister General Magnus Malan and 10 other retired senior army officers in connection with the murder of 13 people in the province in 1987.

Prisoners of the past: Chief Mangosuthu Buthelezi and F W de Klerk

Mr de Klerk's condemnation of the move as breaching a government amnesty provision may have had substance, but it can have done no good to the party's election image.

If the Nationalists are not only to consolidate their white constituency, but to make inroads into the DP vote, retain the loyalty of the Coloureds as well as a substantial section of the Indian community and appeal to a growing black middle class, they have to live down their past and project themselves as the party of clean government, human rights and sound economic management.

Coming to the defence of General Malan, as Mr de Klerk and the party did, was hardly the way to go about it.

But the action against the former defence minister has other far-reaching ramifications. It has undermined the surprisingly good relationship that has developed between Mr Mandela and General Constand Viljoen.

Any development which antagonises the white right should not be treated lightly, for within its ranks are the potential assassins who could destabilise the country with a single bullet.

The Freedom Front, however, is a far cry from the extremist factions on the lunatic fringe of South African politics, and the danger of its sympathisers within the armed forces taking part in a co-ordinated military resistance to political change has passed, assuming it was ever a possibility.

The longer-term consequences of the action against General Malan and others may not be in their impact on whites, but on what the case reveals and what it may mean for Chief Mangosuthu Buthelezi and the Inkatha Freedom Party (IFP), long suspected of having links with the shadowy so-called "third force", thought to be behind the Natal killings.

The mood within the ANC is hardening and senior officials express frustration with Chief Buthelezi, warning that should he and his party be implicated by the investigations, the government might be tempted to take tough but unspecified action.

The ANC are confident, however, that if and when elections go ahead in the early part of next year, the party could win a majority of local government seats in the province.

One casualty could be proper discussion of the constitutional issue which goes to the heart of the strained ANC relationship with the chief, and which was not properly resolved during the constitutional talks that paved the way for the 1994 elections; the relationship between the country's central government and the provincial parliaments.

Chief Buthelezi's demand that these parliaments retain substantial powers is seen by the ANC as a cover for what it believes is his ultimate objective – the secession of KwaZulu/Natal.

No one is watching developments more closely than the National Party, likely to pull out of the government of national unity in the run-up to the next general election to give itself a free hand to attack the ANC.

The party still yearns for an alliance with the IFP, which they see as sharing their views on economic issues. But as long as it is led by Chief Buthelezi, the IFP is seen as much a prisoner of its past as a National Party led by Mr de Klerk.

However, a deal with an IFP led by somebody of the calibre of Oscar Dhlomo, who left the party some two years ago to head a Durban political think-tank, could be the basis of an alliance which could control KwaZulu/Natal and the Western Cape Assemblies, and deny the ANC a two-thirds majority at the next election, suggest National Party officials.

But getting rid of Chief Buthelezi is easier said than done, and Mr Mandela's triumph last month leaves the country no closer to resolving what may yet prove the toughest test of his presidency: the problem of KwaZulu/Natal.

هكذا من الأصل

■ Economic reviews

By Tony Hawkins

Hoping for a golden scenario

If reforms take place and fiscal discipline is maintained, 5% growth can be achieved

Given the impressive economic achievements of the past 18 months, the end of year assessment "must do better" may sound harsh and even unfair. It is, however, a reflection of thinking within the business community and government.

Gross domestic product growth of 3 per cent this year and probably somewhat more in 1996 is just not enough to banish the spectre of "jobless growth" and, beyond that, of socio-political instability as the gap widens between haves and have-nots. Sustained growth of at least 6 per cent is needed to provide jobs for new labour market entrants while making inroads into the huge backlog of unemployed.

In 1994, when GDP rose 2.3 per cent, formal sector employment actually declined, while, this year, employment is unlikely to grow more than 1.5 per cent.

Obstacles to a jobs-led upswing during the rest of the decade are formidable.

South Africa has comparative advantage in capital-intensive activities such as the mining and beneficiation of minerals. Large investment projects that will have a substantial impact on exports over the next few years include the capital-intensive Alusaf aluminium and Columbus stainless steel schemes.

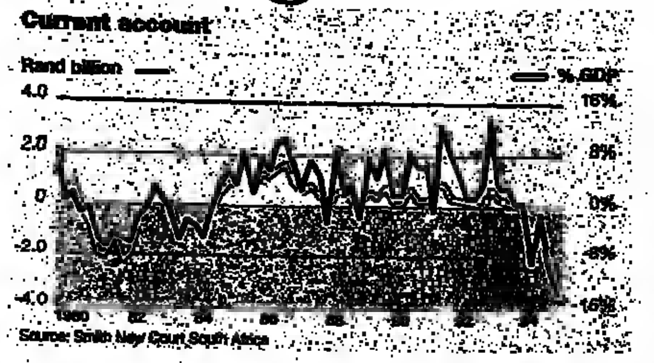
While direct job-generation at such projects is limited, there is enormous potential for indirect job creation in downstream activities, including, perhaps, more than 40,000 new jobs in small and medium-scale enterprise.

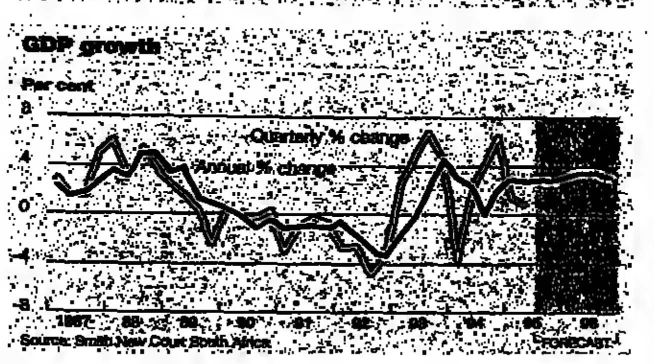
In mainstream manufacturing, however, where South Africa along with many other "transitional" economies faces a difficult strategy choice, the situation is very different.

Past neglect of black education and training and the scarcity of skills, which threatens to be exacerbated by white emigration, seem likely to become crucial constraints to high-tech economic growth. Despite this, officials see considerable potential for high-tech industrial growth, driven by alliances and joint ventures with foreign investors.

Socially and politically, too, policy-makers are having to target labour-intensive growth strategies. This is not going to be easy, given the calculation that wages in South Africa are 10 times those in some of the emerging Asian economies while, on a regional comparative advantage basis, labour-intensive activities would be better located in neighbouring Mozambique, Zimbabwe, Botswana or Malawi.

Union power has also enabled the labour unions to keep pushing up real wages despite massive, and growing,





unemployment. In the first nine months of the year, wage settlements in 12 industries averaged 11.75 per cent against an estimated inflation rate for the year of just below 9 per cent.

With a labour market where real wages rise despite 40 per cent unemployment (ignoring informal employment), productivity enhancement is crucial. South Africa's poor rating in the World Economic Forum's latest World Competitiveness report in which the country comes bottom of the class in terms of people – literacy rates, skills and productivity – underlines the challenge to management with ABSA Bank calculating that output per worker in the US is 5.3 times higher than in South Africa, while in the UK the ratio is 2.7 to one and in Singapore 2.4.

To grow at 6 per cent a year, the economy needs to invest a minimum of 25 per cent of GDP, compared with 16.5 per cent in the first half of 1995. With savings running at 17 per cent of GDP, there is a gap of at least 8 per cent of GDP – and probably more – that will have to be filled by increased domestic savings, a lower public sector deficit and borrowing requirement and foreign capital inflows.

In 1995, GDP growth of 3 per cent will be accompanied by a current account balance of payments deficit of around 2.5 per cent of GDP. The deficit is being financed by stock exchange inflows of more than $1bn so far this year with short-term borrowings making up the difference.

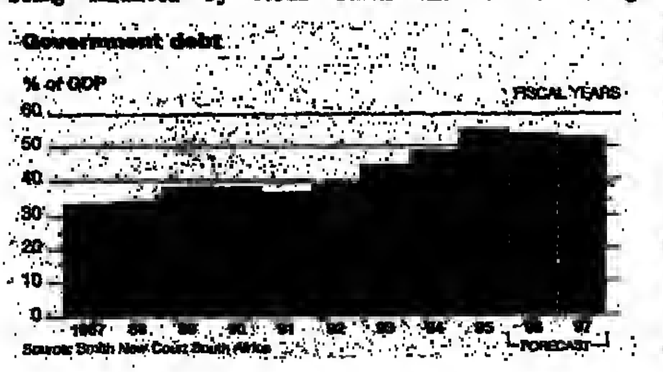
Direct investment inflows have been disappointing.

Inward investment takes the form mainly of joint-venture and alliance deals with existing companies, with limited capital inflows. Brokers, bankers and business argue that foreign investment will not take off until exchange controls are abolished.

In the words of one banker: "Exchange controls have been proved to be more effective in keeping foreign capital out, than preventing domestic capital from leaving."

The people in Pretoria, less excitable than their financial market counterparts, are altogether more cautious. To date, Chris Stals, governor of the South African Reserve Bank, has not put a foot wrong. The abolition of the financial rand in March went very smoothly with predictions of a 15 per cent slide in the commercial rand proving unfounded.

Dr Stals has since further eased controls by phasing down the central bank's role in the forward exchange market, by approving offshore investments by South African corporates and by allowing asset swaps between domestic and foreign institutional investors. He is committed to removing remaining controls at a rate consistent with maintaining a stable rand while continuing



to squeeze out inflation.

Dr Stals is winning the inflation war, too, though not without incurring the wrath of those who believe he was wrong to push up interest rates twice this year, in response to rapid money supply growth – 15.7 per cent for M3 so far this year compared with a 6 per cent to 10 per cent target – and the sharp deterioration in the balance of payments on current account.

The current account swung from a surplus of R400m in the first half of 1994 to a deficit of R5.7bn in the comparable period this year. 'The main reason for this is the collapse in the trade surplus from R13bn in calendar 1994 to R3.2bn in the first nine months of 1995. In turn, this is largely the result of the upturn in imports – intensive private sector investment – running at its highest levels since the early 1980s, though there is some expectation that lower tariffs and the October removal of the remaining import surcharge, will boost imports of consumer goods for the rest of the year and into 1996.

In September, year-on-year inflation at 8.4 per cent hit a 23-year low and even the less bullish forecasters expect consumer inflation to stay securely in single digits at least until 1997.

Quasi-Thatcherite supply-side policies are replacing the protection and export subsidies put in place by previous administrations. The supply-side thrust includes a Support Programme for Industrial Innovation (SPII), tripartite training schemes involving business and labour as well as government, networking with tertiary institutions in industrial research and product development, and sweeping measures to create a more enabling environment for small enterprise.

In a variation on the export zone theme, government is planning "development corridors", such as the region east of Gauteng to the Mozambique port of Maputo where there is considerable growth potential for export-oriented activities – steel and metal processing, pulp and paper and agro-industry, including food processing.

Restructuring, especially given the tight domestic as well as external constraints in the form of affirmative action, the shortage of skills, the power of the unions and increasingly competitive global markets, will not yield immediate results. Tariff reduction and exchange control liberalisation will be gradualist rather than "big bang". The same applies to privatisation.

Once reforms are in place, and provided the fiscal and monetary discipline of the past 18 months is maintained, the way will be open to 5 per cent growth and possibly more. But this golden scenario may not be achievable without a showdown with the unions to give job creation priority over rising real wages.

■ Reconstruction and development programme

'Wish list' off to a slow start

'It's time to roll up your sleeves,' was President Mandela's comment about the programme

A year ago, the former housing minister, Joe Slovo, promised that 1995 would be the "year of delivery" for South Africa's ambitious reconstruction and development programme (RDP).

Mr Slovo's untimely death certainly contributed to the failure to meet the targeted 200,000 new houses a year, with his successor, Sankie Nkondo, being the target of sharp criticism for her inability to get the country's showcase programme on the road. Last month, Ms Nkondo had to tell parliament that only 10,600 state-funded homes had been delivered so far this year.

Frustration with the RDP is increasingly apparent within government itself – witness President Mandela's "it's time to roll up your sleeves" victory speech after this month's local elections, and the call by Trevor Manuel, trade and industry minister, for "more action and less jargon".

The ANC swept into office to April 1994 committed to a far-reaching but overly ambitious, needs-driven programme designed to restructure and transform South African society.

At basic needs level, the focus of the RDP is jobs, land redistribution, housing, water, electrification, telecommunications, health and education.

From the outset the programme was criticised on two main grounds – that it was a socio-political "wish list" without structured priorities and that the funding provisions were not only vague, but incompatible with the government's commitment to fiscal discipline.

Ironically, the funding issue has been overtaken by frustration at the failure of ministries and departments to spend their development budgets. Last month, the cabinet minister responsible for the RDP, Jay Naidoo, announced a new fast-track disbursement programme aimed at halving the rollover of R2bn of unspent RDP money in the current fiscal year.

If his new targets are met, all but 10 per cent of the R7.2bn earmarked for the RDP in 1995/6 will have been allocated, with substantial amounts provided for municipal upgrading, urban renewal, health and rural water supply.

The RDP's slow start is blamed on inappropriate appointments – within Mr Naidoo's own department as well as that of the new housing minister – a long-winded and intensely bureaucratic decision-making process, the absence of "delivery mechanisms" at grassroots levels for some programmes, and the "centralist" tendencies of some ministers and officials, determined to keep a tight grip on the process.

Where delivery systems already exist, the RDP is on target. Reporting to the cabinet last month, Mr Naidoo pointed to 300 projects bringing clean water to 3m people, the electrification (by parastatal Eskom) of 2.7m homes, the expenditure of R350m on policing, free school meals for 3.5m children and free health care for pregnant women and for children under the age of six.

Non-governmental organisations (NGOs) and community self-help organisations worry that they risk being "crowded out" by the state.

Mamphele Ramphele, who heads the Independent Development Trust, warns that the RDP is in danger of becoming "a bureaucratic nightmare" that will undermine the efforts of non-government agencies. Dr Ramphele's NGO has an impressive track record – building 2,400 new classrooms, helping 100,000 people to buy serviced land and financing 300 rural clinics.

Others fear that community self-help schemes are at risk as activists look to the government – through the RDP – to take over the work they have done in the past. As the criticism of RDP non-delivery mounts, so the search for delivery systems has strengthened the hand of those calling for more outsourcing to parastatals, private enterprise and NGOs.

Mr Naidoo's revised strategy – with its 25-year focus replacing the five-year quick fix of the initial RDP draft – targets partnership with private enterprise in infrastructural development and the provision of services.

Private enterprise will be allowed to manage services for local authorities, to assist local authorities in drawing up business plans, and devise "build-operate-transfer" arrangements.

Getting delivery systems up and running will improve RDP performance markedly over the next 18 months, but only if the economic targets of faster growth, with relative price stability and a shrinking public sector deficit, can be achieved. The RDP is criticised here, too, not because of the commitment to fiscal discipline, which is being met, but because of its needs-driven "cart-before-horse" philosophy.

> Sankie Nkondo, the housing minister, is being blamed for not getting the showcase programme on the road

"We have to put jobs before houses" says one businessman, echoing Mr Manuel's call for faster economic growth as a prerequisite for social progress.

Nor will fiscal stability be achieved if government planners lose sight of the affordability issue, leaving the state to pick up the resulting subsidy tab. Speakers at a recent housing congress zeroed in on the "unrealistic" nature of a social programme that seeks to provide unaffordable homes for the poor.

Bob Tucker, general manager of E Bank, the Standard Bank's community services arm, points out that three-quarters of the homeless will not be able to afford the type of home that government seeks to provide.

Almost half the country's homeless population earn less than R1,000 monthly and only about a quarter of the population can afford a conventional house on its own plot of land. To be able to build or buy a 30 square metre home – about the size of a two-car garage – on its own plot, a family would need a monthly income of at least R3,000.

A recent study of squatter households in the Gauteng region found that only 18 per cent of the people were earning any income at all, while 47 per cent were living below minimum subsistence levels.

This affordability dimension will force the RDP planners to rethink. A year ago, Tokyo Sexwale, the premier of Gauteng province, set a target of 150,000 new homes for his first year in office.

Eighteen months later just 1,200 have been built, and last month Gauteng announced plans to spend R225m on upgrading squatter camp facilities.

Says Mr Tucker: "Home buying decisions should be based on affordable alternative rather than on arbitrary assumptions of what people want or on politically- prescribed standards."

Affordability is a problem rights across the RDP spectrum with implications for other controversial elements of national economic policy. The telephone utility Telkom has a shortfall of some 10m lines. It will cost R20bn to provide 4m new lines, but the parastatal does not have the resources to fund such a programme which may yet force a reluctant ANC administration to acknowledge that, like outsourcing, privatisation will have to be part of RDP implementation.

The government's commitment to partnership with NGOs and private enterprise as well as its own learning curve experience points to faster implementation of the RDP uext year, combined with greater pragmatism in tackling deep-seated social problems that will take a generation and longer to resolve.

RDP developments are carefully monitored by the monthly publication, RDP Monitor from Stock Information Services Ltd, PO Box 998, Pinegowrie, South Africa 2123. Tel: (11) 787-1000. Fax (11) 789-5273.

■ Black empowerment

Sights set on business citadel

There are many opportunities for black businessmen to exploit

Having won political power, black South Africa's next target is the business citadel which, if experience elsewhere is any guide, will be a tougher proposition. At the small and micro enterprise levels, where black business is already dominant, the task is different, and easier, from that in the formal economy, where skills, technology, experience and scale economies work against late-comers.

A 1993 World Bank survey of the more established "dynamic, or potentially dynamic" black businesses identified four sectors (retail, constructiou, taxis and clothing manufacture) as areas where black business had the potential to build market share. The four sectors were selected partly because they were relatively undemanding technologically and also because, with the exception of the taxi industry, start-up capital requirements were modest.

The Kombi taxi industry was the dominant form of black entrepreneurship, with more than 50,000 taxis accounting for 1.7 per cent of GDP in 1989. It was the sole black-driven industry to have a "significant impact" on the economy as a whole. A fifth of the companies in these sectors were classified as dynamic "fast-laners", another 20 per cent as potentially dynamic but constrained by various influences and the remaining 60 per cent as businesses battling to survive.

Market factors – in the form of strong competition – were the main constraints, followed by the cost of doing business and inadequate premises. Finance was in fourth place in the hierarchy of constraints, though this was not the case for the dynamic businesses that were self-funding. Access to skills, including managerial skills, and access to land, for construction companies, were significant constraints, as also was crime and violence. The prominence of competition in this list of constraints illustrates a threat as well as an opportunity.

The threat lies in the temptation for policy-makers to devise artificial measures for improving competitiveness in the form of affirmative action programmes such as preferential tendering for black-owned business and sub-contracting quotas – both of which are as likely to damage competitiveness at national level and deter new investment as they are to foster black business.

That the opportunities are there to be exploited is highlighted by the experience of organisations such as the three-year-old National Economic Initiative (NEI). It seeks to network small and medium-sized businesses with the economic mainstream, making use of a "one stop centre", the Business Opportunity Centre (BOC). The BOC provides training, finance, information and advice on opportunities and even premises for small firms. Funded by NGOs and private sector companies such as the Kagiso Trust, Ford Foundation and Barlow Rand Ltd, the NEI has developed links with the South African Bureau of Standards, the Council for Scientific and Industrial Research and the National Productivity Institute, all of which provide the technical back-up that black business desperately needs.

> Joint ventures and sub-contracting are paths to greater black business involvement

The two most obvious paths to greater black business involvement that white business can promote are sub-contracting arrangements, which are becoming increasingly important, and joint ventures. On the sub-contracting front the award of contracts for the provision of 1m extra telephone lines will bring together principal telecommunications multinationals and franchise agents and sub-contractors.

Joint ventures are on the increase, too. At the end of September, a black investment group, Worldwide African Investment Holdings (WAIH) launched Afric Oil which is taking over 100 filling stations from Caltex in Gauteng. Caltex has a 10 per cent stake in Afric, which is controlled by WAIH with 51 per cent. A subsidiary of the state-owned Transnet transport parastatal has 29 per cent and the balance of 10 per cent is held by FirstCorp Merchant Bank.

A variation on the joint-venture theme is the black-owned New Age Beverages company, which has the Pepsi-Cola franchise in South Africa. New Age is 25 per cent owned by Pepsi US, but the bulk of the new investment – 50 per cent of the equity – came from African-American investors who formed a company called Egoli Beverages, including big names from show business such as Whitney Houston and Johnnie Cochrane from the O.J. Simpson defence team. The balance was raised from black South Africans – individuals, labour unions and other black groups.

The long-term plan is that Egoli will divest, selling its shares to South Africans, with New Age planning to go public on the Johannesburg Stock Exchange before the end of the decade. Rather than operating through existing distribution networks, New Age has created its own infrastructure in the process creating dozens of new small businesses in the form of small haulage companies that deliver Pepsi to some 2 000 wholesalers across the province of Gauteng.

A year after its launch, New Age is selling 40 per cent more than target and earlier this month, its rival Amalgamated Beverage Industries, which has the Coca-Cola franchise, admitted that operating margins had fallen as the company was operating in "an intensely competitive market place".

Unbundling is contributing to black empowerment process, too, most notably through the sale of Metlife, a life insurance company, formerly controlled by one of the country's two large insurers, Sanlam. The vehicle for the unbundling was New Africa Investments Ltd (Nail) whose other large investments include MTN in the mobile phone industry and the country's main black newspaper, The Sowetan.

Whatever the route to black empowerment, the emergence of black-owned investment vehicles is clearly a large factor in providing what one leading white businessman calls "a door for potential partners and unbundlers to knock on".

■ **Labour relations:** by Roger Matthews

Smaller in number and shorter in length

The private sector has suffered very few disputes, despite tough wage bargaining

It has been a good year for labour relations in South Africa. The number of days lost as a result of industrial action is likely to be the lowest for many years, and a new labour law has been passed by parliament which will provide a sophisticated framework for future relations between management and workers.

During the first nine months of this year about 870,000 days were lost because of strike action, against 2.5m in the comparable period last year, 2.4m in 1993, 3.1m in 1992, and 2m in 1991. Andrew Levy and associates, the labour consultancy which compiles the statistics, said strikes so far this year had been relatively small and were over quickly.

It also noted that some 75 per cent of the days lost this year had been as a result of disputes involving local authorities and state enterprises, probably a reflection of government efforts to restrain the public sector wage bill. Strikes in the public sector also drew the greatest amount of national attention, particularly the Johannesburg street cleaners and hospital nurses.

By contrast, the private sector has suffered very few disputes, despite tough wage bargaining. This suggests that the unioo movement has suffered less than expected from the loss of leadership caused by the number of officials who left to pursue political careers following the April 1994 general election. Pay settlements have, however, generally been running significantly ahead of inflation, with most increases between 10 per cent and 12 per cent.

Part of the explanation for this relative harmony in the workplace was that the Confederation of South African Trades Unions (Cosatu) and its allies had thair sights firmly set on the main prize of the year, the successful passage of a new labour law. Cosatu's alliance with the African National Congress always assured it of legislation that would represent a big advance on the current legal hotchpotch, but still found it necessary to mount several weeks of what it described as "rolling mass action", which at its peak brought eoma 70,000 workers on to the streets of Johannesburg.

Employers responded that they would rather sit out a six-month strike than accept some of the demands hy unions, particularly for imposed centralised wage bargaining. Bohhy Godsell, a director of Anglo American who represented the employers during negotiations at the National Economic Development and Labour Council (Nedlac), said the demand was impossible to concede. At the conclusion of negotiations he said that he had to be able to tell South African companies that this was a draft law under which they could continue to operate profitably.

> A new law will provide a framework for future labour relations

Sam Shilowa, general secretary of Cosatu, eventually decided not to put at risk the advances offered by the new legislation by insisting on centralised bargaining, which anyway already existed in several industries. However, the bill does allow for an extension of industry-wide bargaining should the different participants require it. The unions also backed down on the issue of replacement labour, allowing employers to keep the right to bring in alternative workers during strikes in particular indnstries.

But overall, the unions had every reason to be satisfied by the shape of the new labour legislation. Although much of the focus is on nipping disputes in the bud and keeping them out of the courts, perhaps the most important single advance for workers is the creation of workplace forums, which for the first time gives them a modest opportunity to contrihute to the way in which a company is run.

In any company which employs 100 or more people the largest union has the right to seek the estahlishment of a forum which requires employers to provide a range of information about the performance of the company, and provides for joint decision-making on a range of specified topics.

Tito Mboweni, the minister of labour, told parliament it would be wrong to expect the bill to eliminate all tensions – many of which were rooted in the country's apartheid past – especially at a time when industry required massive restructuring as it faced up to global competition. But the bill did represent a revolution in the way disputes would be resolved.

At the heart of this is the commissiun for mediation, conciliation and arbitration, which is aimed at providing a speedy and accessible professional mechanism for handling conflicts. Mr Mboweni stressed that the objectives of the bill were not to allow the exercise of union power to destroy wealth-creating capacity, or allow individuals to be suhjected to undue hardship.

Work is now proceeding on setting up and staffing the structures provided for by the legislation, a process thet is unlikely to be completed for several more weeks. Mr Mboweni is aware that the success of the new labour regime will initially depend on the efficiency of the machinery erected to administer it.

■ **Trade:** by Tony Hawkins

Lomé block a big disappointment

Pressure is growing for closer trade links with the fast-growing markets in Asia

European reluctance, if not refusal, to grant South Africa even limited Lomé Convention terms, is a setback to a country that desperately needs rapid export-led economic growth. According to a study by the Institute of Development Studies (IDS) at Sussex University*, the European Union's unwillingness to offer preferential entry Lomé terms to South Africa reflects a hardening in attitude against non-reciprocal trade liberalisation.

South Africans can be forgiven for thinking that the EU prefers to support President Mandela's administration with high-profile aid pledges rather than closer trade ties. Indeed, when South Africa was offered access to the EU's General System of Preferences (GSP) for industrial products in 1994, unlike other developing countries, it was denied GSP terms for its agricultural exports.

The EU seeks to explain this by arguing that South Africa is not a developing country, but this is a blurred, not to say highly politicised area, given the access granted to eastern European countries. According to the IDS, the different treatment meted out to Pretoria compared with past policies towards South Korea and Brazil "provides a stark example of the change in attitude". South African negotiators believe that they are being punished for the sins of their apartheid fathers.

Most developing countries exporting competitive items to the EU are more developed than South Africa – in terms of the United Nations Human Development Index – while more than half of them have more favourable access terms. Rather than offering South Africa Lomé terms, the EU has suggested an "asymmetrical" free trade agreement, which would give Pretoria limited preferences in the EU during a transition period before reciprocal free trade. Only a relatively small proportion of South Africa's exports would benefit from improved market access, though the positive impact on agricultural exports would be substantial.

Some 80 per cent of South African exports to the EU are agricultural products and preferential access for such imports would be politically controversial and likely to be strongly opposed by the powerful farm lobby. The IDS study concludes that, while most of South Africa's 45 "policy-relevant" exports to the EU would benefit to some extent from both Lomé terms and a free trade agreement, Lomé has the added advantage of a "carte blanche" approach in the form of automatic duty-free access for all industrial products, which would be more appropriate for an economy in the throes of restructuring. Because of its reciprocal character, EU exporters stand to gain more from a free trade agreement than a Lomé deal.

The danger in this, from Pretoria's viewpoint, would be thet of retaliation by existing non-EU trading partners. IDS notes that of the 190 most important EU exports to South Africa, no fewer than 152 are also exported by the US. East Asia, with whom South Africa is anxious to strengthen trade links, would obviously be unhappy with such a deal, while a free trade agreement with Europe would further bolster the politically-sensitive one-way trade relationship South Africa has with most of its African neighbours.

At this stage, the terms of the EU offer to South Africa are unknown, hut Pretoria would much prefer Lomé access, despite the fact that the margin of Lomé preferences will be eroded as the Uruguay Round reforms are implemented.

With some analysts arguing that South Africa is losing the battle for preferential entry to the European market, there is growing pressure for closer trade links with the world's fastest growing markets in Asia. Last year, Far East markets took a fifth of South Africa's exports, second only to Europe's 43 per cent and ahead of both Africa (15.6 per cent) and the Americas (14 per cent).

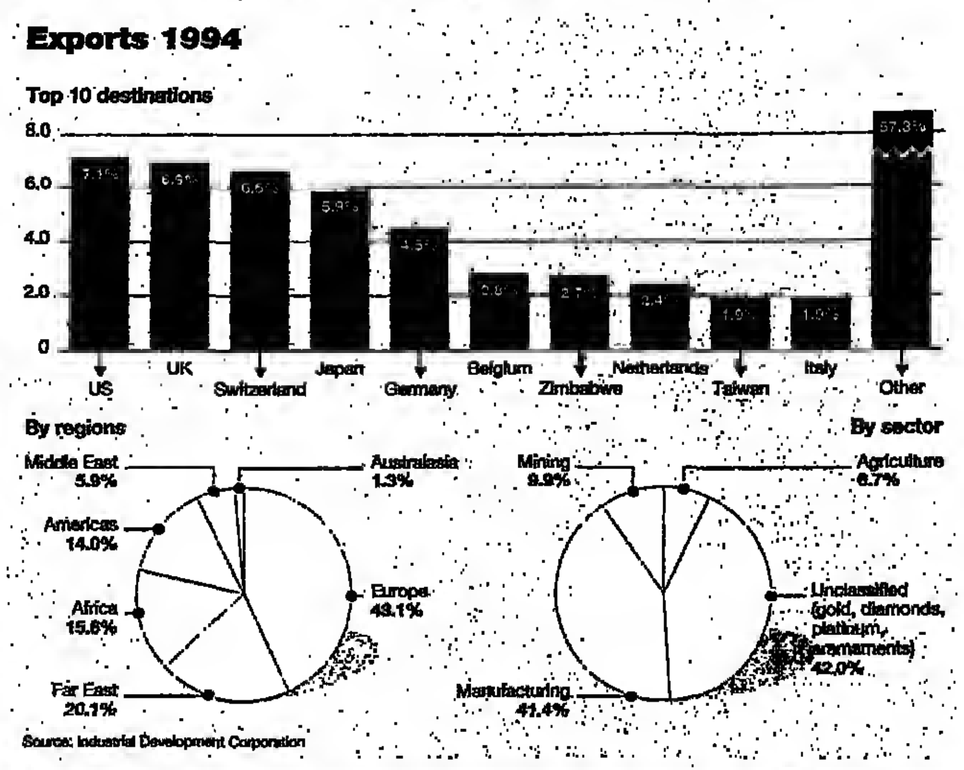
The bulk of South Africa's African business is with its immediate neighbours – its fellow members of the Southern African Customs Union (Sacu), Botswana, Lesotho, Namibia and Swaziland – and Mozambique, Zambia and Zimbabwe. These are all small – if not tiny – markets, with limited growth potential. Indian Ocean states, Mauritius, India, Pakistan and Singapore have far greater potential, certainly in the near term. Negotiations with South Africa's Sacu partners for the restructuring of their customs union agreement heve reached "an advanced stage", according to officials, and should be finalised by March 1996. The hope is that the revised Saco treaty will create a platform for a broader community embracing other members of the 12-nation Southern African Development Community.

This is a sensitive area, since several of Pretoria's partners believe South Africa is behaving lika the "bullyboy on the block" in trade issues. Indeed, Robert Mugabe, Zimbabwe's president, is alleged to have accused Pretoria of treating his country as if it were part of the Northern Transvaal. By agreeing to negotiate preferential entry for Zimbabwean clothing and textiles, South Africa has defused the immediate crisis, as far as Zimbabwe is concerned. But Botswana's Hyundai car assembly factory and what remains of manufacturing industry in Zambia are continuing problems. The harsh reality, which even South African politicians are reluctant to acknowledge, is that, uncompetitive though some of its industries may be, South Africa will still be the dominant regional exporter of manufactured goods.

On the import side, Germany heads the field, closely followed by the UK, the US and Japan. Precious metals – gold, diamonds and platinum – and other unclassified items including armaments dominate exports, accounting for 42 per cent of the total, while manufacturing's share is 41.4 per cent. Other minerals – especially coal – contributed almost 10 per cent and agriculture 6.7 per cent. Despite declining production, gold still accounts for 28 per cent of merchandise exports – though the 1995 ratio will be lower at 20 per cent reflecting a 45 to 50-tonne fall in production from last year's 584 tonnes.

In the first eight months of 1995, exports were up 14.6 per cent in value (5 per cent in volume), while imports had risen over 35 per cent in value and more than a quarter in volume. The yawning gap between import and export volumes reflects the import-intensive investment-led nature of South Africa's economic upswing, as well as the poor performance of gold exports. The good news is that manufactured exports have performed well, despite warnings that South African manufactures are unable to compete in global markets. Machinery exports rose 85 per cent in the first 8 months of 1995, while chemical sales were up 72 per cent and wood pulp 82 per cent. If South Africa is to solve its unemployment crisis, export-led growth is vital. Trade expansion will create far more jobs than aid.

** Institute of Development Studies, University of Sussex: Trade between South Africa and Europe: Future Prospects and Policy Choices. Christopher Stevens and Jane Kennan, with Schalk Fischer, Glen Robbins and Robert Rudy.*



Source: Industrial Development Corporation

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■ **Privatisation prospects:** by Roger Matthews

Local style is sought

The government has begun to see the value of private sector involvement in state enterprises

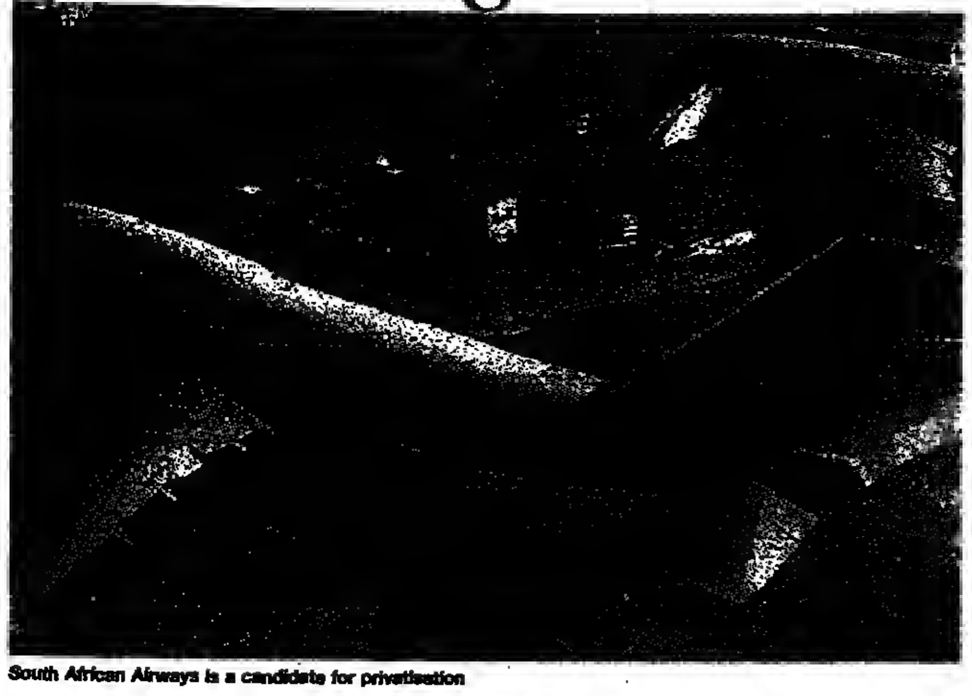
Few issues are causing the South African government greater uncertainty in formulating policy than the reorganisation of the state sector. Most of the African National Congress, including ministers, remain strongly opposed to any restructuring which smacks of the approach adopted by successive British Conservative governments over the past 15 years. Although Stella Sigcau, the minister of state enterprises, says she does not mind using the term privatisation, it is still a word which edges reluctantly off the ministerial tongue.

Seen against the evolution of ANC economic policy, this is hardly surprising. Only five years ago on his release from prison, Nelson Mandela talked of nationalisation as a central plank of party policy.

The ANC has travelled a vast distance since then, but is still nowhere near embracing the policies urged on it by private sector economists and would-be international beneficiaries. However, the evolutionary process continues, and as the harsh realities of the ANC's economic inheritance become more obvious, so the pace is likely to accelerate.

Many members of the ANC still view the state sector as an important vehicle for redressing past inequities and for advancing the black majority. They argue that empowerment of blacks in the private sector tends towards tokenism, and will never be adopted with the speed or enthusiasm that can be injected into the public sector where targets can be set, training budgets allocated and performance monitored.

However, there is also a growing appreciation among some senior ANC members that without private sector involvement, state enterprises will be starved of the capital, investment and access to technology which is vital for the success of the reconstruction and development programme.



South African Airways is a candidate for privatisation

Getting more ANC members to accept this, and to persuade the unions to be less hostile, is likely to occupy much of the next few months.

During this time six sectoral task teams will investigate the options open to individual industries and attempt to see how their future fits in with overall government objectives and priorities. The government has also set aside a R10m ($2.7m) budget for employing outside advisers.

Meanwhile, Mrs Sigcau will undertake what she has described as a "national roadshow" which will visit many parts of the country to ascertain the view of provincial governments, local business, unions and other interested organisations. The minister said she wanted the process to be open and transparent. "All ideas are welcome and no options are ruled out. We want to find solutions unique to South Africa, rather than simply importing other models and applying them uncritically."

From an ANC perspective this will particularly mean exploring ways of bringing small and medium-sized companies into the process, probably through encouraging larger state enterprises to spin off some of their support services. At the same time, the task teams will be looking at ways of involving and benefiting state employees, through such means as the distribution of share issues.

The ministry of public enterprises has initially divided state companies into three sectors: those in which there is a clear public policy interest, those which have public policy "dimensions", and those in which no issue of public policy is involved. The first category includes Eskom (power generation and supply), Telkom (communications), and Spoornet, the long-distance rail and freight company. In the second category are companies such as South African Airways, and in the third the small and often loss-making operations, such as Parcel Express, which appear to be among the most obvious candidates for disposal. However Mrs Sigcau has insisted that the categorisation of companies should not be used as a guide to probable government action.

Mr Alec Erwin, the deputy minister of finance, says the government is determined that what emerges from this process will be a competitive and efficient state sector. Rather than looking to the British example, which in his view cannot claim to be a success, South Africa will seek to achieve improvements through partnerships and joint ventures with the private sector, particularly on infrastructure projects. "We want the private sector to work with us and so far the response has been very positive," he says. "But it is also very important that we first get the regulatory framework right."

He adds that the government is ready to dispose fully of those assets that had no role in the state sector, but says these amount to only a very small percentage of the total. He is also confident that the unions will support the government's initiative.

Mrs Sigcau has committed herself to present an interim report to the cabinet on the work of the task teams during December. Once that work is completed, further public consultation will take place, and a report will be submitted to the parliamentary sub-committee. The cabinet will then debate various proposals and each state sector will be looked at individually. Implementation will begin at some unspecified date, but it is unlikely to get under way before the second half of next year.

■ **Competition policy:** by Roger Matthews

New rules for big business

Conglomerates face allegations of stifling investment and preventing entrepreneurism

"Holy cow, holy smoke" were the first words uttered by Mr Michael Spicer, a director of Anglo-American, when in September he rose to respond to a speech on competition policy by Trevor Manuel, minister of trade and industry. The expletives provide some clue to the heat generated by a subject that for several years has been a core issue for the African National Congress, and one of no less concern for the biggest South African conglomerates.

Mr Manuel had just delivered his own view of South Africa's economic history. "The conglomerates have ensnared the market," he declared. "There is no way into the South African economy for foreign direct investors, or local entrepreneurs for that matter." He agreed that the government, though not *his* government, and the politicians were to blame.

"But that was then and this is now, and the government and politicians in a democratic South Africa will correct the situation. We will see that bad business practices and uncompetitive behaviour, by any conglomerate or public enterprise, are shaken out of the system," said Mr Manuel. "We will see that black entrepreneurs, those people who by government decree and fiat have been at the whims of politicians because of the perverse relationship between government and white business over the past 50 years, gain access to business in an unimpeded and fair way."

The government's goals, according to Mr Manuel, are greater economic efficiency, increased and innovative productivity, competitiveness and entrepreneurship. He insisted that the government was not "anti-big", but believed the conglomerates prevented competition and entrepreneurship. The *raison d'être* of the new competition law was to promote healthy inter-company rivalry and the opening up of opportunity.

South African business is waiting to see how the draft law aims to promote those objectives. Mr Manuel has promised there will be an opportunity to debate the issues "in the *appropriate* forum and in good time," but business leaders are concerned at how little they have been consulted.

They also fear that, despite Mr Manuel's protestations to the contrary, provisions could be included in the legislation for the forcible break-up of conglomerates.

Chris Liebenberg, the minister of finance, said that although he had not seen the legislation he was sure that it would be "very responsible" and would address certain recognised issues that characterised the South African market.

"Listening to my colleagues in the Cabinet, I can say they are not anti-big business. They recognise there are certain things that only big business can do. But the biggest complaint I hear from overseas people coming to South Africa is the vertical integration of major businesses. They are forced to buy from the subsidiary of a competitor, and they feel very uncomfortable about that," said Mr Liebenberg. "These are the issues that need to be looked at, and I have little doubt that it will be done in a very responsible manner."

Pierre Brooks, who heads the Competition Board and has been closely involved in drawing up the new legislation, is even more emphatic about the concerns of some South African companies. While some large companies behave in an exemplary way, others are "tyrannical and autocratic" in their dealings with smaller companies, he says.

Mr Brooks adds that for a competition policy to be credible it requires effective deterrent and enforcement mechanisms, and it is in this respect that the current policy is most deficient. "Firms can flout with impunity the rules governing competition, well knowing that even when they engage in criminal activity they will not be prosecuted. Or, if they are prosecuted, they can escape with an admission of guilt and a fine that will strengthen their belief that crime does pay", he says.

"While these and other measures that may be introduced would be regarded as unexceptional in other parts of the world, where *competition policy* is taken seriously, they will no doubt be criticised by those to whom anti-competitive or abusive conduct is a way of life."

One key anxiety of business leaders is that the new law will pursue objectives that go beyond what they consider to be the accepted role of competition policy. At the most extreme this would include provisions for the forcible unbundling of conglomerates, but scarcely less acceptable would be an intention to use the law as a means of black advancement.

A discussion document, commissioned by the government and circulated at the start of this year, specifically warned the authorities to "guard against attempting to use competition policy to attain social, redistributive or development objectives that are not directly linked to the state of competition and may be better served by other policies".

> Business leaders are concerned about the lack of consultation

The authors, two economists and a lawyer, said it was also important not to assume any direct or automatic link between positions of market dominance and market abuse. Indeed, the conglomerates argue that one of the reasons why foreign investors sometimes find it difficult to enter a particular market is the fierce competition that already exists and the efficiency of the companies involved. They add that if the companies which dominate a market were as inefficient as critics suggest, foreign competitors would quickly make their presence felt.

However, what is not denied is that there is a high degree of concentration in South African manufacturing. Precise figures may vary, but in many industries some 80 per cent of national sales are accounted for by four, or fewer, companies.

There are, of course, good historical reasons for this. Exchange controls, and South Africa's international isolation, forced already large companies to expand domestically, a process spurred by the sale of assets by departing foreign investors. To this, Mr Manuel adds the denial of business opportunities to black entrepreneurs during the apartheid years which, he argues, contributed substantially to the situation which has seen the four largest conglomerates control over 75 per cent of the Johannesburg Stock Exchange's market capitalisation.

But however great the sense of historical injustice, Mr Manuel is pragmatic enough to recognise the limitations of competition policy. He has already indicated that the new law will concentrate on rooting out vertical integration, setting up an effective independent tribunal to assess complaints, imposing deterrent punishments, and allowing companies damaged by anti-competitive behaviour to claim damages.

The criteria to be used in identifying abuses, the maximum levels of fines and damages, and the composition of the tribunal are certain to be contentious issues. Business leaders have already expressed their fears about the dangers of creating an expensive and unwieldy bureaucracy that is ill-equipped to deal with the complex issues that will have to be faced.

Just how much say they will have in the final form of the legislation is open to question. Mr Manuel has said that he will submit the draft bill to the National Economic Development and Labour Council for consideration by representatives from business, unions and government, but he does not intend that it should be subjected to the clause-by-clause quest for consensus which marked the progress of the labour relations bill.

This, in turn, suggests that Mr Manuel expects to face stiff opposition from parts of the business community.

■ **Gold mining** by Philip Gawith

The gilt is beginning to tarnish

The abysmal performances of gold mines will speed up drastic industry reforms

On the surface, it is business as usual at South Africa's mining houses, but behind the head-office facades in Fox, Main and Marshall streets in downtown Johannesburg, the industry is in ferment.

The problems associated with maturing gold mines have not crept up overnight. But history will probably record the abysmal second-quarter performances this year – and some mining houses did even worse in the third quarter – as the catalyst for the most fundamental restructuring the 110-year-old industry has seen.

The full extent of the problem is quickly evident from a few figures. Operating profit in the September quarter of around R860m for the industry was not much more than half of what was achieved in the September 1994 quarter. According to data from stockbrokers Ed Hern, Rudolph (now part of BOE NatWest Securities), the industry's average cost per ounce of gold produced during the quarter, including capital expenditure, was R1,355 – 17 per cent up on a year previously, while consumer price inflation was 6.4 per cent over the same period.

Compared to a gold price of around R1,390 an ounce, this left the industry profit margin at 2.5 per cent, well below the 5 per cent profit-to-revenue ratio at which mines stop paying tax. This means that, in aggregate, the local gold industry is now effectively a marginal operation.

The only good news is that these figures – and the aggregates disguise some shocking individual performances – have been so dismal that they have helped accelerate the restructuring process.

The position was summarised by Robin Plumbridge, chairman of Gold Fields of South Africa, in his chairman's review. He said: "The time for debate on this subject is over and action plans must be put in place in the shortest possible space of time. Otherwise it will be too late to save a significant proportion of our mining industry."

There can be no doubt that the prospect of extinction has had an invigorating effect. It is acting as a solvent on previously sacrosanct, but now inappropriate, working practices, and has unleashed in some senior managers an almost messianic fervour as they get to grips with the task.

But while their energy and optimism is considerable, none would deny that the road ahead is daunting. As Tom Dale, managing director of Gengold, notes: "It involves considerable risk to restructure a labour-intensive industry with your backs to the wall."

The industry, whose annual production has fallen to 550 tonnes, from 1,000 tonnes in 1970, faces two main challenges: first, what can be done to extend the life of existing mines, and, second, what steps can be taken to mine profitably the enormous amount of untapped ore reserves which remain in the Witwatersrand basin, but which cannot be mined profitably?

Finding an answer to the first problem is the overwhelming priority, though its successful resolution may signal the way to address the second challenge, which would give the industry a new lease of life.

The solution lies with productivity. This will lower pay limits – the gold price at which ore can be profitably mined – improve profits and extend the life of mines. Mr Dale describes capital and labour productivity in South Africa as "hopelessly low". Because South Africa's mines are so deep, the capital costs are very high, yet for 90 days each year they stand idle.

Aggravating matters is the very high cost of capital – the market capitalisation of South African mines, per ounce of gold produced, is very low in international terms.

Houses such as Randgold and Gengold are trying to address this financial challenge by consolidating different mining activities, and shifting the focus from individual mines to these umbrella companies. If they manage to make shares more tradeable, and boost the capitalisation of these companies, the cost of capital will come down.

The bigger challenge, however, lies with labour productivity, and this is not relevant only at the lower levels. One experienced observer is scathing about head office mining overheads. "The industry is full of fat cats driving Mercedes Benzes," he says. But if the problem at the top levels is bureaucracy and overmanning, then the problems at the bottom levels are poor education, illiteracy and archaic working practices.

The buzz word in the industry at the moment is "fulco", short for full calender operations. The industry has finally secured union co-operation in moving from an 11-day fortnight to a seven-day week – from 275 working days a year to 365. But they have paid, heavily, upfront, for this change. Higher wages look likely to push up total working costs by around 5 per cent, and an additional premium will have to be paid for working on Sundays and public holidays.

The trend is also, increasingly, towards productivity-based remuneration, and multi-skilling – where underground teams are trained in all four cycles of mining, drilling, blasting, cleaning and support.

"Down-sizing" is another vogue concept – in some cases, such as Gengold, head office staff have been drastically cut, and further job losses on the mines will be inevitable as non-profitable shafts are closed. In Anglo's case around a third of shafts are regarded as endangered.

There is no mining house that has not grasped the nature of the challenge, though some are better equipped, and have moved quicker, than others to address it. The general principles that have to be applied are not in dispute, but their application will depend on the vastly different circumstances of the different mines, and the culture of those who run them.

■ **Agriculture:** by Philip Gawith

Why farmers are gloomy

Once, there was a helping hand for whites. Now, the sector is being opened up

Kraai van Niekerk, South Africa's minister of agriculture, could be forgiven were he starting to show schizophrenic tendencies.

When Mr van Niekerk held the portfolio under the previous government, life was much simpler. His prime concern was white farmers, in particular those who might vote for the National party, and few disputed the state's right to be centrally involved in setting the main agricultural prices.

Now the minister sings from a different hymn book. In keeping with the changed political times, the department is focusing on "resource poor" or "previously excluded" farmers, rather than on the predominantly white commercial sector. A set of policies is being developed to broaden access to agriculture.

In step with the prevailing economic mood, much greater stress is being laid on the role of markets and the responsibility of individual producers, as the highly controlled structure of South African agriculture is rapidly deregulated.

For the 55,000 commercial farmers, this is a mixed blessing. When it is combined with what amounts to political disempowerment, a sequence of drought or near-drought years, rising crime, stronger trade unions, talk of land taxes and land redistribution, and tariff policies which pay little attention to the agricultural sector, it is not surprising that the mood is gloomy.

Indeed, with some notable exceptions, such as the fruit and wine farmers in the western Cape, the new South Africa has brought with it a conspicuous decline in farming confidence – in marked contrast to the business confidence index, which is at a 10-year high.

Mr Koos du Toit, chief economist at the South African Agricultural Union in Pretoria, says: "Our farmers are worried. There is no strong trust in what government's intentions are."

Many farmers believe the government actually wants them to go bankrupt, because that would make land acquisition, for redistribution purposes, much cheaper. That may be fanciful, but it indicates their state of mind. Stories that the government plans to redistribute up to 30 per cent of land over the next five years have not helped.

However, some of these fears are overblown. If the Zimbabwean example is anything to go by, then the government will find it much easier to talk about land redistribution than to effect it.

And the general retreat of the state from the agricultural domain – a new Marketing Act, with a deregulatory bias, is likely to be passed next year – will be to the good. Mr du Toit concedes: "Farmers will be exposed to greater risks... that helping hand will not be there any longer."

Previously, life was much easier for white farmers, whose support the government needed. In the first place, ownership of land was a virtual guarantee of loan facilities (often at preferential land bank rates). Second, endemic inflation contributed to spiralling land values. Third, marketing schemes contributed to price certainty. Fourth, political leverage meant that there was virtually guaranteed state assistance in emergencies.

The combination of these factors, and more clement weather conditions from the 1950s through the mid-1980s, fostered a degree of security in South Africa's farmers to the

Continued on next page

■ **Johannesburg Stock Exchange:** by Philip Gawith

Radical reforms ahead

When the new Act came into force this month it ushered in a new era for the exchange

Radical change is becoming something of a habit in South Africa and earlier this month it was the turn of the Johannesburg Stock Exchange to undergo reforms.

November 8 marked the beginning of a new era wheo the Stock Exchange Cootrol Act took effect, usbering in negotiated commissions, corporate membership, dual capacity and o move towards screen-based trading.

It will take time for these changes to wasb through the system, but they will ultimetely transform the JSE.

Already some changes have been made, especially in terms of the JSE's membership. For the first time, banks and foreign firms have been eble to own brokers oo the JSE. The list of oewcomers trading as corporate entities from November 8 includes sucb international oames as UBS Securities and SBC Warburg Securities, and local banks Investec Equities, Firstcorp Capital Markets, RMB Securities Treding and UAL Securities.

There are also some old names in new guises: Martin & Co bas become Fleming Martin. Davis Borkum Hare is now Smith Borkum Hare, part of the Merrill Lyncb group, while Simpsoo McKie has become Simpson McKie James Capel, part of the HSBC group.

Restructuring bas also throwo up one notable first, with African Life taking control of G O'Flaherty to prodoce the JSE's first black-controlled broking firm. Also, there are now 13 black-controlled companies on the JSE, with a total market cepitalisetion of R4.3bn. Measured against the zero base around three years ago, this is considerable progress. However, it is e small fraction of the 646 listed companies with a market capitalisation of around R940bn.

The JSE has been slow to respond to London's Big Bang and implementation will be gradual. Some of the changes will only take effect after March 1, 1996. But Roy Andersen, executive president of the JSE, believes the JSE has been able to learn from the errors of other exchanges.

Ted Woods, managing director of Ivor Jones, Roy & Co, says: "For stockbroking firms the next six months will see margins plummet, market share shrink and overheads rise as increased competition pushes up the cost of staff. If you showed me a business witb those characteristics, I would be looking to short that share... and that's us!"

As with Big Bang in London in 1986, the rationale for the tie-up with foreign partners is the oeed to survive the drastic fall in brokerage that will accompany the introduction of negotiated commission. The hope is that these partners will provide access to new foreign clients, so that shrinking margins can be offset by volume growth.

Martin & Co was undoubtedly the leader in responding to the prospect of change, setting up e Londoo office in 1986, and a New York office in 1989. Winstoo Floquet, managing director, explains that the strategy was "to diversify revenue sources by geography and product".

For some of the South African banks entering the market, the challenge is to try and use their retail network to generate an order flow. Standard Bank, for exampla, has launched a toll-free oumber which customers can use to place orders without having to sign any documents – they will simply have their accounts charged.

The big money, however, is made on the wholesale side. And the really big money is oot made in broking at all. For many of the larger firms, it is all sbout positioning themselves for privatisation, and the large fees that will be on offer when institutions such as Telkom and South African Airways are put up for sale.

What is happening on the JSE is that South Africa's leading broking firms are becoming part of integrated global investment banks, who hope to leverage off their research expertise and relationships to garner fee-paying business from the South African government and from private companies.

If 1995 has been e momentous year for the JSE in e policy sense, it has been rather dismal from e performance perspective. From January to September 1995, the overall index fell by 8 per cent, with the All Gold index down by 24 per cent and the industrial index up by 2 per cent. Reflecting this poor performance, in the year to September the volume of deals also fell by 13 per cent and the value by 6.4 per cent.

Other trends, however, were more positive. Net foreign purchases of equities rose to R4.05bn, from R720m in 1994, and oew capital raised rose to R14.9bn, from R6.4bn. Liquidity (turnover as e percentage of market capitalisation), excluding arbitrage, was disappointing, et 6.7 per cent.

■ **Foreign exchange controls:** by Roger Matthews

Just one chance to get it right

Abolition is likely – but the move could take longer than some economists might want

Chris Stals, governor of the Reserve Bank, want to abolish exchange controls. "We work on the basic philosophy that exchange controls are going to be abolished," said Mr Liebenberg in an interview.

But it is the how, and the when, that most exercises both men, and it is not e decision that they can afford to get wrong. Mr Liebenberg likes to use the analogy of a one-day cricket match where each batsman is given just one chance. "If you are oot, that is it, whereas in golf if you mess up the first hole you still have another 17 to play," ha said, adding wryly that he had not been on a golf course for the past four months.

"We cannot make e mistake on this one. We have to be ebsolutely sure that we are doing the right thing. There is no room to be a maverick or cavalier. We cannot just say let's lift exchange controls and see what happens. Perhaps we are being too conservative. I will accept that criticism. Perhaps we do want the ice to be too thick. But we want to be quite sure that wa are not going to fall into the water."

There are pleoty of South Africans, however, who would like Mr Liebenberg to get his skates on. They range from private sector economists, who argue for a "big bang" approach to abolition, to those who favour e more controlled explosion.

Mr Liebenberg edmits that he is under much greater pressure from people who want to get money out of South Africa than he is from those who wish to bring money in. "A lot of South Africans sitting here say that for them the oumber one priority is getting rid of exchange controls. But it is not the top priority for foreign investors, although it is true that investor-friendly countries do not beve exchange cootrols," he says.

Private studies carried out by the Reserve Bank on possible outflows followiog an abrupt removal of all exchange controls bave been described by one official as "quite frightening". Although no calculations have been made public the study looked at the long peot-up demand for foreign assets from portfolio investors. South African companies, expetriates who have funds blocked in tha country, and wealthy private individuals who would like to establish a hedge against the risk of political instability.

While officials acknowledge thet it is possible to overestimate tha initial outflow, they have oo doubt that it could eubetantially exceed South Africa's gold and foreign currency reserves which at the end of September stood et R11.79bn ($3.2bn), or less than six weeks' imports. The government would be expected to beve oegotiated e stand-by credit with the International Monetary Fund before ecting decisively on exchange cootrols, but this arrangement would be designed to provide a cushioo against the unexpected, such as the impact of a Mexican-style crisis.

With South Africa due to repay some $2.5bo in foreign debt over the oext two years, and the balance of payments under pressure from e surge of imports, few ecooomists see much immediate opportunity for e significant increase in reserve levels. Foreign capital inflows have risen sharply since the general election in April 1994, but Mr Stals has repeatedly warned that more than half of this increase is ehort-term, and can leave as swiftly as it arrived.

The arguments advanced by the edvocates of e big bang epproach focus more oo the risks that Sooth Africa will run if it does oot ect swiftly to remove exchange controls. They say, with some justification, that domestic savings are insufficieot to stimulate the growth levels oeeded to eddress the country's fundemeotal social and political problems.

Increased investmeot will have to come from overseas, and foreign investors are deterred by the implicit assumptioo by government thet if South Africans were given an alternative they would rush to put their money offshore. "If we appear oot to have faith in our own economy how can we expect foreign investors to be more positive?" asks one senior industrialist.

The maintenance of foreign exchange cootrols also impinges oo other domestic debates, such as the international competitiveness of local companies, and the market dominance enjoyed by the largest conglomerates.

The arrival of more foreign companies might inject greater competition, but it is unrealistic to expect the conglomerates to become more focused when they have such limited opportunities to invest funds generated by selling off local assets. Trevor Manuel, the minister of trade and industry, acknowledges that the ebolition of foreign exchange controls forms an essential part of this debate.

Such signposts as the government has been eble to erect in the past 18 months all point in the direction indicated by Mr Liebenberg and Mr Stals. The financial rand – the two-tier currency system designed to prevent ooo-resldeots removing capital from the country – was smoothly abolished in March.

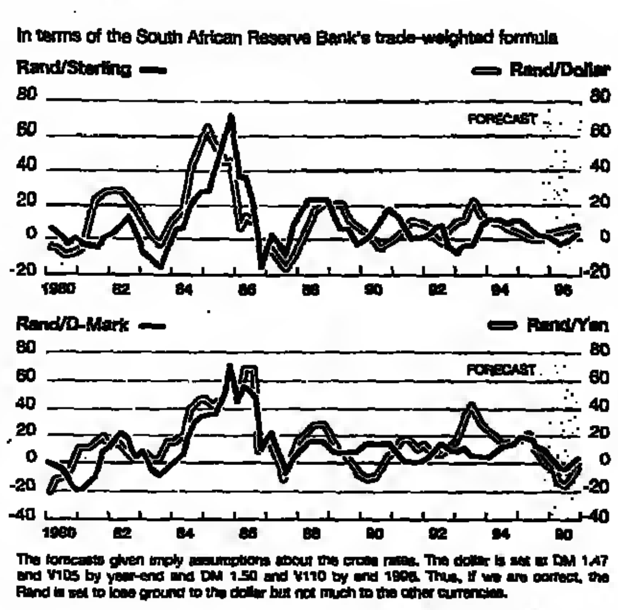
Since then, the government has introduced "asset swaps", whereby the authorities have allowed South African institutions to exchange assets with foreign firms, accompanied by a guarantee that there is no foreign exchange risk. Each application is examined individually and so far deals worth more than R5bo bave beeo approved.

Regional political developments are also encouraging the process of gradual liberalisation. South Africa's membership of the Southern African Developmeot Community (SADC) has concentrated ettention on the role that Pretoria should play as tha engine of regional economic growth, and the opportunities this offers local companies.

The Reserve Bank is already looking more favourably at applications from companies to invest in its northern oeigbbours, and has adapted its "thou shalt oot" approach, to one that says "if in doubt, say yes". With far greater stealth, and much less transpareocy, the bank may well be in the process of extending this flexibility to applications from companies to invest in other parts of the world.

Nominal rand

In terms of the South African Reserve Bank's trade-weighted formula



The forecasts given imply assumptions about the cross rates. The dollar is set at DM 1.47 and Y105 by year-end and DM 1.50 and Y110 by end 1996. Thus, if we are correct, the Rand is set to lose ground to the dollar but not much to the other currencies.

Source: Smith New Court South Africa

■ **Banks:** by Tony Hawkins

Competition mounts

Banks are investing in technology while catering for a fast-growing black consumer market

With nearly 50 oew banks setting up offices since 1990, South Africa's banking industry has entered a new phase of intensified competition. "We have to admit," says one banker, "that we had it fairly easy in the past."

According to Henry Shaw, chief financial officer at Standard Bank Iovestment Corp (SBIC), all South African banks operate "higher cost-to-income ratios than their competitors offshore". Margins of around 4 per cent on assets are double those obtained in first world markets, while it costs them between 65 cents and 70 cents to generate a rand's worth of income compared with between 55 cents and 60 cents for their competitors in Europe or North America.

The squeeze on costs and margins comes at a time when banks are being forced to invest heavily in technology and training while repositioning themselves in the domestic market to provide services for a fast-growing black consumer market. Some bave gone regional, and even global, to service clients for whom exports, especially to Africa, and offshore investment have assumed a new enhanced importance.

Standard Bank has positioned itself as a significant regional operator with e 14-branch network across sub-Saharan Africa, and has established a global presence with offices in London, New York and the Far East.

First National Bank has also expanded regionally, though on a very modest scale, while taking over a London merchant bank, Henry Ansbacher. Nedcor has taken the alliance route to open up in Africa while raising $150m from the issue of global depositary receipts, which give it the capacity to strengthen its global operations.

The new banks are unlikely to challenge the big ones – ABSA with e market share of around 27 per cent, Standard (23 per cent), First National (19 per cent) and Nedcor (18 per cent) – in the retail market. It is always possible that a leading international bank will buy into one of the existing banks but direct entry to the retail segment seems very unlikely.

New banks are targeting the foreign exchange, international trade, asset management, money market and corporate finance markets, using international links and reputations to win corporate business.

The oewcomers may have e price advantage in the form of cheaper access to foreign credit lines, but they cannot provide the broad range of services and local expertise available from the South African banks. The easing of exchange controls and the opening up of new lines of credit have lowered rates and margins while also fuelling more volatile conditions in the foreign exchange and interest rate markets.

Domestic market conditions are changing, too, with the growth of mutual and money market funds that is impacting on the bank's retail resource base.

As margins decline, banks will be forced to cut overheads and operating costs, which will oot be easy, given the need to provide services for a new kind of customer while also spending heavily on training and technology. At the same time, they will have to find new sources of revenue, by charging for services traditionally provided free, as well as by increasing lending volumes and earning more from their money and exchange rate market operations. Increasingly, mass market services will be technology-driven.

In the medium term, bankers foresee a shift away from traditional branch operations, that are becoming a liability rather than an asset.

Although bankers prefer not to talk in terms of targets, affirmative action programmes linked to substantial investment in education and training are high on the corporate agenda. There are very few experienced black bankers in the country and competition for scarce black talent is driving up wages while the established banks, with their costly training facilities, are finding it difficult to retain newly-trained talent.

Ranking of South African banks

Bank	RANKING* World	RANKING* SA	STRENGTH Tier 1 assets ($m)	SIZE Assets ($m)	Return on assets (%)	Rank
SBIC	185	1	1,666	23,465	1.62	1
Absa	205	2	1,450	23,885	1.29	4
FNB	269	3	1,057	17,325	1.77	3
Nedcor	341	4	759	15,091	1.80	2
NBS Bank	696	5	291	4,458	1.26	5
Investec	880	6	200	3,154	0.80	6

* The banks are ranked globally on tier 1 capital

Source: The Banker

Why farmers are gloomy

Continued from page 6

point where they started taking undue risks, especially by planting maize in areas that were unsuited on any reasonable price expectation.

Now all of these factors have changed. "You have to farm for profit," says Mr du Toit. "It will not be sufficient to just own a farm. All the challenges of a normal entrepreneur will come to the fore. It should make our farmers better business people ... they will be forced to produce more wisely than in the past."

While some of the country's commercial farmers were cossetted by the state in the past, it would be unfair to tar all with the same brush. Indeed, SAAU figures show that against average support (using a measure described as "producer subsidy equivalent") to farmers in the European Union (1989) and the US (1992), of 30.1 per cent and 19.3 per cent respectively, South African farmers received support in 1988-89 and 1991-92 of 11.7 per cent and 15.7 per cent.

The key policy challenge is how to foster small farmers (there are an estimated 700,000 to 1m) without damaging the commercial sector, which produces the bulk of the agricultural output. Last year farm gate receipts were about R28bn, or 5 per cent of GDP, though this understates the economic importance of the sector.

Fortuitously, the government believes this political imperative points in the same direction as the dictates of economic efficiency.

Commercial farmers can, in their more sanguine moments, understand the philosophical shift in government policy, even if they are unconvinced about its viability. Less willingly tolerated, however, has been the government's cavalier approach to tariff protection. Cheap sheep-meat, chicken and pork imports, for example, have this year played havoc with agricultural prices. Figures from the SAAU show that poultry and dairy imports rose by approximately 150 and 100 per cent respectively between January 1994 and June 1995, compared to the total for 1992 and 1993 combined. Beef, sheep and pork imports were up by 300-650 per cent over the same period. Prices have since fallen by between 7 and 60 per cent.

■ **Business environment:** by Philip Gawith

Former opponents form new compact

If white business wishes to flourish it must help less fortunate black counterparts

The South African business community has matched political change swiftly and extensively. Much is made of the fact that, through ownership, a few large groups continue to dominate the economy. But this has not resulted in standstill. These giants still tower over the corporate landscape, but it is not their size that is striking, rather the turmoil of new structures springing up from the ground.

Much of the activity involves the arrival of high profile foreign companies, but locals, especially black businessmen, are also getting in on the act. Hardly a day passes without an announcement in the press which, as recently as two years ago, would have been inconceivable. Radical politicians have changed overnight into hustling businessmen, and company chairmen who enjoyed the largesse of the National Party government have long since realised that they need a new set of friends – in the ANC.

What is most noticeable is how quickly a compact between white and black business has been struck. The deal is that, if white business wishes to survive and flourish in the new South Africa, the price it must pay for doing so is helping advance its less fortunate black counterparts.

It is easy to be cynical about the expediency of a process where white business trades its capital and expertise for the political connections and access of its new black partners. In the recent deal which saw the black-owned Thebe group take a 5 per cent stake in the large electronics and telecommunications group Altron, there was no effort to hide the fact that Thebe's appeal for Altron lay in its "enviable networking competence in business". Few would argue, though, that if black business is to have any chance of catching up with its white counterparts, such arrangements are unavoidable. Many would privately admit that such bargains are a small price to pay for a stable political transition. For, on this point, business speaks with one voice: the political revolution has gone better than anyone could have hoped. Healthy economic growth has also helped business's spirits, with many large companies reporting over 20 per cent growth in earnings this year, and some substantially more.

In South Africa's case, healthy profits can be quite unrelated to politics. Indeed, world economic growth and the state of the commodity cycle are much more important. Leslie Boyd, chairman of Anglo American Industrial Corporation, recalls that their best ever years were 1988/9, the height of the sanctions era but also, more importantly, the height of the commodity cycle.

For industrialists like Mr Boyd, the post-apartheid era brings both challenges and opportunities. The challenges come in the form of greater competition, the opportunities in the form of new partners, technologies and markets, though exchange control still remains a barrier to going abroad. The Anglo group is now in partnership with ten different international partners, ranging from Daewoo and Ford, to Alcatel and RJR Nabisco. In industries where tariff barriers are falling, margins are shrinking. In the case of the motor industry, for example, the tariff protection on imported cars has fallen from around 115-125 per cent to 65 per cent, and will fall further to 40 per cent in 2002. The compensation is that the market is growing, perhaps from 200,000 passenger cars/year to 3-400,000.

While some parts of the economy are clearly more competitive than others, the arrival of foreign competition has not caught the better companies unawares. Some of them have for many years been using international benchmarks of productivity and quality to assess their performance. There are few industries where foreign multinationals have not been operating for years. McDonalds and AT&T may be new arrivals, but Pizza Hut, Kentucky Fried Chicken and Siemens have long been fixtures in the corporate landscape.

Many South African companies, especially those with a consumer focus, believe their comparative advantage lies in their understanding of developing markets. Rick Manell, director at Angloval, one of South Africa's larger companies, says: "The new markets are essentially those which address needs of developing consumers, such as staples, basic services and transport. Most of the first world competitors want to get into the first world sector. While we will still compete strongly in our established markets, maybe this gives us a gap." He points out that "relationships and cultural affinity" also confer an advantage on South African companies.

While most businessmen credit the government with a reasonable performance at the national reconciliation and macro-economic level, there remain one or two significant areas of tension. The most important of these is the view, widely held in business circles, that government and the unions are pricing labour out of employment. "It is not logical in a nation with an unemployment problem like us to have trade union strength like we have now, supported by the government," comments one senior executive.

Mr Boyd says that business is asking for is not a change to the way that existing businesses are run, but that government should not stand in the way of new businesses developing, based on low wages. "Thinking that high wages will bring growth and productivity is putting the cart before the horse. We have to improve our productivity first and dramatically. Then, as and when growth levels of four to six per cent are achieved on a sustained basis, wages will be dragged up."

The other area on which there is widespread business agreement is that exchange control should go, and this seems only a matter of time. There are also calls for more competitive tax rates and fiscal incentives to invest, though these are less unanimous. There has also been considerable disquiet at the shambles and understaffed state of the Customs and Excise department, which has made South Africa a haven for dumping and grey imports, putting some businesses under great pressure. Chris Liebenberg, the finance minister, has taken steps to address the problem, but business will probably have to live with inadequacies in this area for some while yet.

To a certain extent, business and government remain uneasy bedfellows, both too mindful of the recent past. Businessmen remember that Trevor Mannel, minister of trade and industry, was only a few years ago a T-shirted activist in the townships. The tone of many of his comments, in turn, shows the belief that "big business" and apartheid were cosy bedfellows is never far from his mind. The rhetoric, however, tends to be more prickly than the practice, and most businessman say that government is not a big factor in the running of their businesses.

Challenges of the new position

The 1995 chairman's review of the Angloval group, one of South Africa's larger companies, contains a clear account of how and why one company has responded to change.

Since 1986, Angloval has pursued a "repositioning" initiative, aimed at changing the group "in line with changes in South Africa and international society in order for it to survive and grow in future."

Mr Basil Hersov, the chairman, notes: "Repositioning is not prompted by an act of charity nor is it a reaction to guilt about the past. Repositioning is enlightened self-interest. It is not a process embarked upon with reluctance or under pressure.

"It is an exciting new set of challenges to be met with vigour and imagination in order to place the Group ahead of competition but also to assist business in general to maintain its vital role in South Africa's future."

Part of the programme is aimed internally at creating a community of interest with all of its employees; and part is aimed externally at ensuring that the group is identified as a constructive element in the communities within which it operates – as part of, and not outside, society.

The three main internal thrusts of repositioning are: affirmative action, quality of life (education, health and housing) and employee participation. Externally, they are: working with businesses and business people who may have been disadvantaged by political legacies, contracting out, and community investment.

To those who argue that repositioning is in conflict with achieving international competitiveness, Mr Hersov says: "If a company succeeds in being internationally competitive, but fails in repositioning, it endangers its survival in the medium term; similarly, if a company succeeds in repositioning itself but fails to become internationally competitive, its survival is under threat in the short term.

"Furthermore, it is not only what companies do, but how companies go about doing it, not only substance, but symbolism, style and mood."

Interview with Derek Keys: by Philip Gawith

Government needs time

The former finance minister is now chairman of Billiton International

Gawith: *How do you mark the Mandela government's score card?*

Keys: I think they are doing very well, but what isn't generally perceived is that everything important they are doing will take a generation to do, if they are doing it properly. That applies to organisational things like turning the police from an instrument of oppression to a community aid, and to material things, like housing and health. I think particularly people outside South Africa, who don't know the country very well, are disappointed at what looks to them like a very slow rate of progress. But I don't think the voters are, and I think the latest election results show what I have always tried to tell people here, and that is that the electorate is savvy and patient.

Is there a single outstanding priority for the government?

The thing that is least addressed is some kind of direct remedy for the unemployment level. You can have much more rapid economic growth than we are having for a very long time without fundamentally changing the unemployment percentage – because of the rate of natural increase, and because the figure from which you start is so high. The market isn't going to address that problem and solve that. So all the right things they [the government] are doing needs to be supplemented by a programme of direct action, and it is fundamentally aimed at unskilled males.

Is the South African challenge all about getting from 3 per cent annual growth to 6 per cent?

It can certainly get from 3 per cent to 5 per cent, but my point is that even 6 per cent doesn't address this core problem, and the RDP (Reconstruction and Development Programme), as it is constituted at present, doesn't attack that problem either. The way in which you get to that 6 per cent is by raising the level of saving and investment, and through productivity gains.

The problem is that the productivity gains destroy jobs, so that while you create some jobs with your net new investment, you are destroying others with your productivity gains, which means that your unemployment problem is chronic in relation to economic growth calculations, and requires some direct action.

How investor friendly is the South African environment?

I don't think you can assess the question of either tax rates or incentives as a general topic. The overseas investor is probably paying a tax rate of 35 per cent – that doesn't compare unfavourably with the tax regime in other countries. As far as incentives go, I rather doubt whether another s37(e) [now defunct incentive scheme, which was the catalyst for large capital projects such as Columbus and Alusaf] would produce more. I just don't think it would be terribly effective at present. What you want to do is use the money you would be giving away in those sorts of tax incentives in industry schemes aimed at world competitiveness.

What is your assessment of the extent of foreign investment?

I think it's just gone back to being normal. The economy kept going in a very remarkable way during the whole sanctions period. It's not like eastern Europe where you find there are huge gaps. There wasn't a huge catch-up gap which had to be filled. The places that were short-changed in that period by the economy were really the social investment areas, like housing.

Are you surprised that foreign investors have not committed to large capital projects?

Why would you put up a plant in an area that wasn't in one of the great trading blocs? If you were a worldwide business, why would you establish a plant in South Africa? Of all countries, it is the remotest from a large pool of spending power. It is nice that it is in the same time zone as Europe and it is nice that people speak English and it has a good legal system and strong financial infrastructure – that's all super. But in the end you have to sell your product.

Derek Keys: It needs a generation to make changes *Picture: Ashley Ashwood*

South Africa has to increase its own savings rate to the point where it can generate a level of investment from its own savings which will allow it to increase its income. The biggest thing the government can do is correct its own deficit. If they manage to keep the level of government consumption in real terms where it is, the deficit will disappear.

How big an obstacle is exchange control to the globalisation of South African companies?

My direct experience of exchange control is that a reasonable case gets a positive answer. I don't think there are companies with a unique competence which, given a larger field for their activities, would just blossom like a rose. I think that is just a romantic idea. I think, in a number of respects South African businesses have a lot to learn in the much more competitive atmosphere, and they will be learning that at home as the tariff levels come down – they don't have to go abroad to go through that learning curve.

I don't think, though, that South African business is that flabby. I think it is quite taut, but it operates like business operates anywhere – it doesn't set out to solve problems that it isn't immediately facing.

What progress has been made with black economic empowerment?

I think there is impressive progress being made in old industries, particularly up to the middle management level – I'm thinking now particularly of the mines. There is a certain spicing of the top structure, which we all know about, and there is this big intervening area where the progress is slow and I think invariably has to be slow. Gavin Relly (former chairman of Anglo American) said years ago that it takes 18 years to make a mine manager. It has nothing to do with colour; it has to do with the areas of experience he has to master.

What is your response to those who worry about the succession to President Mandela?

I refer them to an answer Mr Mandela himself made when asked that question on Australian TV. He reminded his interviewer that it had been his colleagues who had successfully fought to bring down apartheid, while he had merely sat back in jail!

What is the main risk to the cautiously optimistic scenario for South Africa?

If the long-term nature of the problems isn't sufficiently appreciated, and the need for direct action on the unemployed, unskilled males isn't appreciated, there could then be a risk of the baby – of reliance on the market – being thrown out with the bath water, and people turning to radically different solutions. I see the need now for a mixed approach of direct action together with market sensitivity.

Foreign investment: by Philip Gawith

US leads the charge back

The best evidence of the market's potential is that many companies have returned

"Encouraging, but far from overwhelming," could serve as an assessment for the extent of foreign investment seen in South Africa since the Mandela government took over.

There has been a steady stream of foreign companies establishing a presence, some very high-level trade delegations – including visits from the UK, German and Malaysian prime ministers – many enthusiastic words about the potential, but no announcements of large projects.

This was pretty much to be expected. New entrants were always likely to commit the minimum amount of capital to the country until they were convinced that the political settlement was durable, and had established the extent of the market for their products.

Against that backdrop, and the reality that there is still a residual scepticism among foreigners about South Africa's ability to pull it off, the trends have been very positive.

Much as expected, US companies have made most of the running. They had left in the largest numbers during the sanctions period of the late 80s – the total number of US companies with direct investment in South Africa fell from around 300 at its peak to around 100 in 1991 – and these same companies have led the charge back.

Less predictable was that the US would attach such importance to the market. The appointment of an ambassador-ranking minister counsellor, responsible for commercial affairs, was as strong a signal of commercial diplomacy as Ron Brown, the US commerce secretary, could send.

While the US clearly sees considerable economic potential in South Africa, the appointed person, Millard Arnold, makes clear that they have greater ambitions. They do not only wish to help US business, they are "primarily looking to encourage black economic empowerment". And there is a more ambitious political goal. Says Mr Arnold: "This relationship will affect the way the US looks at Africa. It will arrest the view of hopelessness and negativity. The South African voice will make it more difficult for the world to ignore the continent."

Mr Arnold is very optimistic about South Africa. He praises the politicians and believes the crime problem is manageable. What US companies like, he says, "is that the country feels like you can do business. This could be part of the States. You feel at home – people speak the same language, offices look similar, there are blacks and whites. Most important of all, businesses think they can make money out here."

The fact that most of the companies that left have now returned must be the best evidence of the market's potential. Managers of multinationals based in South Africa confirm that their profits compare favourably with those achieved in other markets.

Mr Arnold does add, though, that it has not all been plain sailing. He acknowledges that the price US companies are paying for their long absence is that they have yet to penetrate the "fabric of society" to form the sort of trusting relationships necessary for good business.

There is anecdotal support for this view. AT&T is one company singled out for having ruffled feathers in high places by being insensitive in the way it throws its weight around. Kodak is also said to have encountered resistance from former clients.

According to the Washington-based Investor Responsibility Research Centre, the number of US companies with direct investment or employees in South Africa rose by 29 per cent, to 206 in the year following the first democratic elections. Bill Mallory, president of the American Chamber of Commerce in South Africa, says US companies in South Africa can be divided into three categories – those returning (such as Ford and IBM), those coming for the first time (including AT&T, McDonalds, Levi Strauss and Bechtel) and those which never left, such as his own company, Ingersoll Rand.

Companies in the financial services, communications and information technology sectors have led the way back, while food and hotels have been other active sectors. Pillsbury, Heinz and RJR Nabisco have all established links, while the large hotel chains – Hyatt, Hilton, Inter-Continental and Sheraton – are either involved in projects, or looking for sites.

While the US has made the running, there have been some other interesting trends. Around 18 Malaysian companies, for example, have invested about R1bn in the country, and there is also an Indian presence. United Breweries (of India) has invested in the black-owned brewar, National Sorghum Breweries. India was one of the earliest countries to sever ties with South Africa.

Foreign visitors are struck by several features of the

> **The investment trends have been very positive**

South African economy. First, unlike in eastern Europe, China and Russia, there are no big gaps to be filled. It is not simply a question of walking in and setting up shop unopposed. Inevitably, there is someone there already. Second, foreigners are put off by the amount of "vertical integration" they encounter – where the same group is involved in all stages of the supply chain from the raw material through to the delivery of the finished good. Companies can find themselves in the situation where they are dependent in some way on their competitor.

The shortage of skilled labour is also a feature, with companies often required to do a lot of training. Rainer Hagemann, managing director of BMW (SA), says that they spend around three times the national average on training, but warns that with increased competition squeezing margins, this may not be sustainable.

More generally, Mr Hagemann says the performance of government departments is uneven. While some, like finance and trade and industry, perform to a first world standard, others have a third world flavour. He laments that in areas such as health and education, there seems always to be a "levelling of the playing fields at the lowest standards".

There is also a misconception that South African productivity is too poor for it to serve as a base for exporting to other markets. In the case of BMW, it used to look at its South African plant purely as a vehicle for serving the local market, but Mr Hagemann says they are now "working very diligently on being world competitive". While South African productivity lags that in Germany by a factor of 10 – 80 cars a day against 800 – South Africa actually comes out ahead when cost per car is considered. He says direct comparison is also unfair in that German plants enjoy much higher levels of automation.

Mr Mallory, of Ingersoll Rand, says the lesson of his company's experience is that "if you have a niche product, and the manufacturing technology, you can be competitive in South Africa". His company produces a pump which can be landed in New York more cheaply than the same product produced in their Athens, Pennsylvania, plant.

Other successful niche operations include the crank shafts produced by Atlantis Diesel, and exported to the US, and the leather trim in BMWs, with 70-80 per cent of the worldwide supply coming from South Africa.

While the government gets a generally favourable press from foreign companies, there are still some grumbles. One senior manager says: "The government has shown itself to be inexperienced and in the hands of lots of advisers." There is also widespread agreement, among both domestic and foreign companies, that the government has failed to get to grips with the crime epidemic.

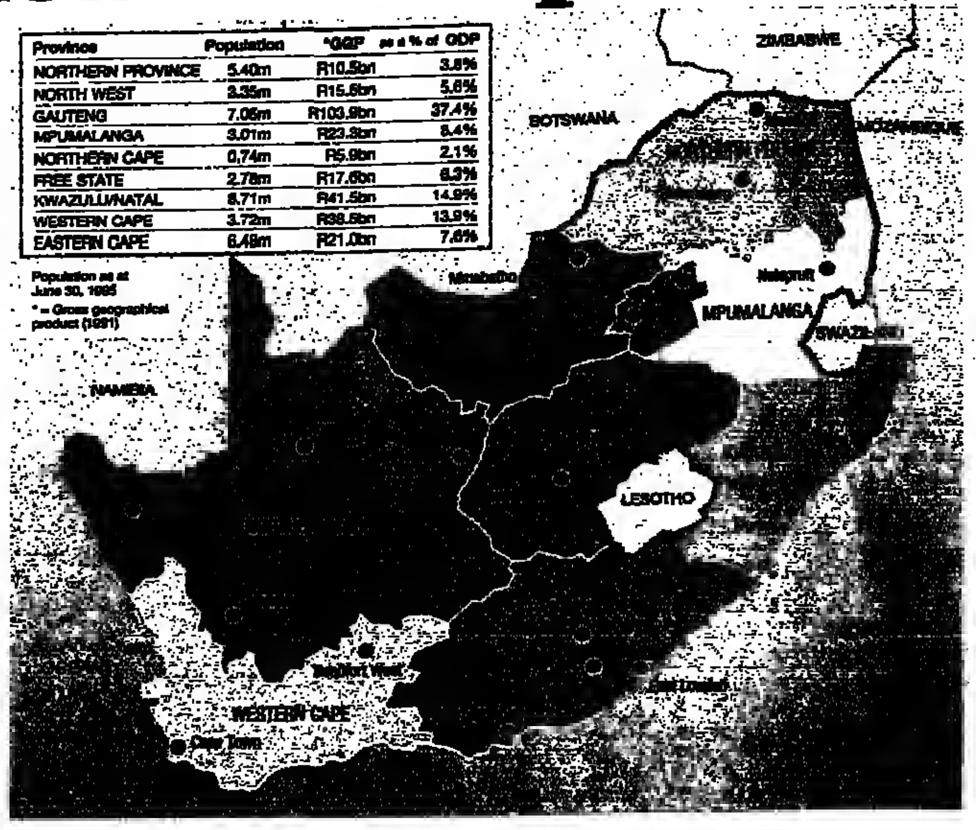
Cape Town is one of South Africa's main tourist attractions and is making a bid for the 2004 Olympics

Picture: Ashley Ashwood

■ **Tourism:** by Scheherazade Daneshkhu

Rich new seam opens up

South Africa is becoming one of the world's most popular tourist destinations



Province	Population	*GGP	as a % of GDP
NORTHERN PROVINCE	5.40m	R10.5bn	3.8%
NORTH WEST	3.35m	R15.6bn	5.6%
GAUTENG	7.05m	R103.9bn	37.4%
MPUMALANGA	3.01m	R23.3bn	8.4%
NORTHERN CAPE	0.74m	R5.9bn	2.1%
FREE STATE	2.78m	R17.6bn	6.3%
KWAZULU/NATAL	8.71m	R41.5bn	14.9%
WESTERN CAPE	3.72m	R38.5bn	13.9%
EASTERN CAPE	6.48m	R21.0bn	7.6%

Population as at June 30, 1995
* = Gross geographical product (1991)

When gold and diamonds were discovered in South Africa during the nineteenth century, people from many other lands were attracted to its shores. Today, the government hopes that South Africa will once again be a magnet for visitors from abroad, but as tourists rather than gold-diggers.

Tourism is South Africa's fourth largest foreign exchange earner generating R7bn last year, but Mavuso Msimang, executive director of the South African Tourism Board, says the government's aim is for tourism to overtake the mining industry, currently the largest contributor, within four years.

Last year 3.7m. people arrived in South Africa from abroad, an 18 per cent increase on the previous year, making South Africa the second most popular tourist destination on the African continent after Tunisia.

The tourism board expects 4.2m visitors this year, a 14 per cent increase on 1994, a figure that has been bolstered by the staging of the Rugby World Cup in May. Dawie de Villiers, minister for tourism and the environment, wants to see these numbers up to 4.5m by the end of 1996 and to 9m by 2000.

The sharp growth of the industry began five years ago when sanctions against South Africa were gradually lifted after the release from prison of Mr Nelson Mandela, leader of the African National Congress.

There is much lost ground to be made up, however. Despite the growth in visitor numbers, tourism contributed 3 per cent to the gross national product last year, well below the world average of 10 per cent. Less than 4 per cent of the workforce is employed in tourism, compared with a world average of 7 per cent.

With almost half the adult population out of work, the government sees job creation as the main benefit. Every 30 new tourists are estimated to create one direct and two indirect jobs.

The industry is also seen as a potential contributor to the government's reconstruction and development programme, earning valuable foreign exchange and stimulating private sector investment in infrastructure services such as roads, water and electricity facilities.

However, the industry's growth is threatened by a number of factors, of which violence heads the list.

Political violence in the province of KwaZulu Natal and crime in central Johannesburg have increased in recent months and the government has responded by laying plans for a special police unit to combat crime against tourists.

There are signs, too, that the country's infrastructure may not be able to cope with increased demand unless there is considerable investment to expand facilities.

Johannesburg international airport is the gateway to the country, yet despite a recent upgrading, it is still small and lacks gate departure lounges.

Cape Town is one of the main tourist attractions and is making a bid for the 2004 Olympics. Gordon Oliver, chief executive of the Cape Tourism Authority admits, however, that Cape Town's airport was an "embarrassment" until eight months ago when services were substantially improved. It is scheduled to have a new international terminal within the next few years as well as a new conference centre.

There is also considerable room for improvement in the provision of good quality services. Studies of the lessons of the Rugby World Cup prepared for the South African tourism board found that although tourists rated service at restaurants, hotels and car hire companies as good, they thought service at fast food outlets was poor, and were unimpressed by public transport and taxis. There is also an acute shortage of luxury coaches.

Mr Msimang says that one of the greatest challenges is that of promoting a tourism culture and involving the black and Asian populations. "Unfortunately tourism is looked on by a lot of people as an elitist industry," he says. Most of the country's hotels and game lodges, for example, are owned by whites. "If tourism is to be sustainable, the large bulk of people who are left out should be brought in – not simply as providers of labour – but as investors, otherwise there will be instability."

One way of doing this, he says, would be to stimulate entrepreneurship in areas outside the traditional nature-based attractions, such as townships and the Indian community in Durban, home to one of the largest Indian communities outside India.

Mr Ousmane N'Diaye, the World Tourism Organisation's regional representative for Africa, earlier this year tried to allay the fears of some of Africa's traditional tourist markets, such as Kenya, worried by South Africa's competitive threat.

While South Africa's strong position on the continent might take away business and international tourism from other African states, he also expected its economic power to have a positive effect on its neighbours.

These effects would include a spillover of increasing numbers of international tourists to other parts of southern Africa; increased business travel stimulated by South Africa's expanding economy; and greater travel, as a result of growing wealth, by South Africa's newly empowered black community.

KEY FACTS

Area .... 1,221,037 sq km
Population .... 41.24m (1995 estimate)
Head of state .... President Nelson Mandela
Currency .... Rand (R)
Average exchange rates . 1994 \$1=R3.549; 13/11/95 \$1=R3.835
.... 1994 £1=R5.442; 13/11/95 £1=R5.669

ECONOMY

	1994	1995'
Total GDP (\$bn)	121.9	133.3
Real GDP growth (%)	2.3	3.0
GDP per capita (\$)	3,004	3,217
Components of GDP (%)		
Private consumption	57.7	
Total investment	19.7	
Government consumption	20.8	n.a.
Exports	27.5	
Imports	-25.8	
Consumer prices (% pa)	9.0	10.2
Real ind. output (% pa)	1.3	2.9
Reserves minus gold (\$bn)	1.7	1.7
3 month TB rate (%)	11.0	13.8
Long bond yield (%)	14.7	14.9
FT-A index (% change over year)	+19.7	-0.2
Current account balance (\$bn)	-0.6	-1.6
Exports (\$bn)	25.1	26.2
Imports (\$bn)	21.4	23.5
Trade balance (\$bn)	3.7	2.7
Export volume of goods (% pa)	0.8	4.0
Import volume of goods (% pa)	15.2	12.0
Total foreign debt (\$bn)	27.9	n.a.
Main trading partners (1994 %)	Exports	Imports
US	4.9	16.2
Japan	4.6	10.2
Asia excluding Japan	9.6	10.2
Africa	9.5	2.6
EU	21.2	48.7

' = EIU estimates for 1995 except reserves (end-September), interest rates (end-October), stock market (% change from 31/12/94 to 13/11/95)

Source: Department of Finance, Economist Intelligence Unit, IMF, Datastream

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IN BRIEF

Mannesmann orders 13% higher

Mannesmann, the leading German engineering and telecoms group, reported a 13 per cent rise in orders to DM27.9bn ($20bn) in the nine months ending September 30. Page 18

Thyssen raises DM1bn from telecoms sale
Thyssen, the steel and engineering group which wants to become one of Germany's leading telecoms operators, said it had raised about DM1bn ($712m) from six international financial groups through the sale of a 27 per cent stake in Thyssen Telecom, its telecoms subsidiary. Page 18

Peugeot shelves idea of US plant
Peugeot-Citroën, the French automotive group, has shelved the idea of building a plant in the US, a market which it abandoned some years ago. However, the formation of a partnership in the US has not been ruled out. Page 19

TV groups in Latin America satellite deal
Four of the world's leading television programming and distribution groups, led by Mr Rupert Murdoch's News Corporation, have joined forces to create a satellite service covering Latin America. Page 20

Apple and IBM close software joint venture
Apple Computer and IBM have pulled the plug on one of the joint ventures they formed four years ago to counter the dominance of Microsoft and Intel in personal computer technology. Kaleida Labs, a Silicon Valley multimedia software development company, is to close in mid-January. Page 20

Hopewell keeps faith with Bangkok project
Mr Gordon Wu, managing director of Hopewell Holdings dismissed advice from Hong Kong bankers that the property and infrastructure group should quit its Bangkok mass transit project. Page 21

Obstacles on runway for airlines' tie-up
Air New Zealand and Australia's Ansett Airlines may have ended months of negotiation and speculation last week, when they announced outline plans for a tie-up. But there are some big obstacles to overcome before the deal can take off. Page 21

L&G joins in Australian insurance deal
Legal & General Australia, an offshoot of the UK insurance company, and SGIO Insurance, the recently privatised Western Australian-based general insurer, emerged as joint buyers of the insurance operations of the South Australian government for A$170m (US$127m). Page 22

Rexam shares slide on warning
Shares in Rexam dropped 37p to 335p in London after the UK packaging and printing group issued its second profits warning in four months. Page 22

'Mad cow' clash splits UK meat industry
The usually tight ranks of the UK meat industry have been split by a bitter dispute over charges for disposing of cattle organs that may be infected with "mad cow disease". Page 25

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
Asko Prf	880	+	10	Eridania B-S C	752	+	31
GEHE	683	+	10.3	SILIC	675	+	43
Hall & Salz	164	+	5	Falls			
Hoechst	263	+	6.9	Accor	605	-	22
Falls				BIC	432	-	13.5
[illegible]	550	-	10	Intertechnique	610	-	30
Heidlb	236	-	7	Pernod A	285.5	-	8.5
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Midwest Exp	29¾	+	2¾	Osaka Gas	367	+	36
Newbridge Netwk	41⅞	+	2½	Chuo Tst & Bkg	795	+	46
Falls				Nippon Real Est	770	+	34
Sterling Softwr	52⅛	-	[illegible]	[illegible]	580	+	49
Phillips	[illegible]	-	[illegible]	[illegible]	[illegible]	+	37
Eckerd	41⅞	-	2	Falls			
Homestake	17¼	-	1¾	Yasuda Secs	252	-	31
Sega A	20	-	2	**HONG KONG (HK$)**			
LONDON (Pence)				Rises			
Rises				Dah Hea	8.65	+	0.3
Fairey Fobbing	171	+	37	Tai Cheung	6.3	+	0.3
McAlpine (A)	140	+	14	Tsingtao Brd	13	+	0.55
Toy Options	101	+	14	Falls			
Falls				HK Bldg & Loan	15.7	-	0.8
Cooper (J)	264	-	23	Pacific Andes	1.4	-	0.13
[illegible]	126	-	18	Sun Hung Kai	1.82	-	0.13
[illegible]	184	-	14	**BANGKOK (Baht)**			
Rexam	335	-	37	Rises			
TORONTO (C$)				Eastern Wire	64	+	3.5
Rises				Int Cosmetics	300	+	32
[illegible]	15¼	+	2⅛	Thai Rubber	88	+	2.5
Biochem Pharm	37¼	+	3	Falls			
[illegible]	18¼	+	1¼	Multi-Credit	140	-	10
[illegible]	8¼	+	1¼	[illegible]	115	-	9
[illegible]	2¾	+	1¼	Thai Film	84	-	5.5
Falls							
[illegible]	[illegible]	-	[illegible]				
CCF	14¼	-	1¼				

New York and Toronto prices at 12:30.

Italgas takes lead in Hungary sale

By Virginia Marsh in Budapest

A consortium led by Italgas, the Italian gas company, last night emerged ahead of several other leading European energy companies as the top first-round bidder for Hungary's regional gas distribution companies (GDCs).

APV Rt, the state privatisation agency, said a consortium made up of Italgas and Snam, both Italian state-controlled companies, had entered the highest bids for three of the five GDCs which are being sold off as part of the country's energy privatisation plans.

Tenders for 50 per cent plus one vote stakes in each of the five GDC companies closed yesterday while bids for minority stakes in 14 electricity companies are due by November 30.

The sales represent the greatest opportunity yet for Western utilities to buy into the energy sector in the former Eastern bloc.

Although price will not be the only determinant of which bids are successful, the outcome of the first round puts the Italians in a strong position.

Under the tender regulations, bidders may either acquire Tigaz, the largest of the five companies, or two of the other GDCs.

They must also have an acceptable business plan covering investment in expansion of the gas network, exploration and efficiency and environmental improvements. In their bid the Italians indicated Tigaz would be their first choice.

The Italian consortium bid $172m for Tigaz and $93m and $67m for two smaller GDCs.

APV Rt said Ruhrgas, the German utility, had entered the top bid for Dégaz with an offer of $52m while Gaz de France, the only company to bid for all the GDCs, had offered a top price of $77m for Egaz, the smallest of the five.

A total of 22 bids had been entered, less than anticipated, but top bids ranged from 200 per cent to 400 per cent of companies' book value, higher than had been expected. The GDCs had combined fixed assets of Ft68.3bn ($615m) at the end of last year.

Officials were delighted at the response, adding that it boded well for the electricity sales.

A total of 24 companies pre-qualified for the tenders which may be followed by up to two more rounds of bidding.

European companies, several of which have developed close ties with the local energy industry since 1989, dominated the bidding. No bids were entered by US companies, which have less of a local presence, although several US companies including Amoco and Tenneco pre-qualified.

Tight timescale, Page 18

Gemina sees loss but clings to Ferfin

By Andrew Hill in Milan

Gemina, the investment group controlled by Italy's business establishment, yesterday said it was likely to lose L463bn ($294m) this year, compared with a consolidated loss of L262bn for the previous 12 months. But the new management yesterday said its plan to merge with Ferruzzi Finanziaria (Ferfin), the Italian holding company, was still valid.

Gemina said it would have to provide a further L240bn capital injection for RCS, its troubled publishing and media subsidiary, on top of L100bn provided last month.

A new executive team was appointed at Gemina last month after directors and former directors of Gemina and RCS came under investigation from Milan magistrates for alleged falsification of accounts.

At the same time, Gemina – which is controlled by Fiat, the automotive group, Mediobanca, the merchant bank, and their corporate allies – had to shelve plans for the Ferfin merger, which would have created Italy's second-largest private industrial group. But Mr Manfredo Manfredi, the group's new deputy chairman, said the investment company could still play a central role in bringing together Ferfin, Montedison, the industrial holding company Ferfin controls, and Fiat's chemicals subsidiaries. "[The Gemina results] have not dented the validity of the SuperGemina operation," he said.

The SuperGemina plan was announced in September, but Gemina and its backers in Italian big business quickly came under attack from small shareholders and market authorities for their failure to provide sufficient information about the worsening financial situation. Some analysts questioned the industrial rationale of the proposed deal.

Italian bankers suggested last week that SuperGemina's negative impact on the stock market could have deterred Italian retail investors from reserving shares in the latest big privatisation – the sale of shares in Eni, the state-owned energy and chemicals group, which begins today.

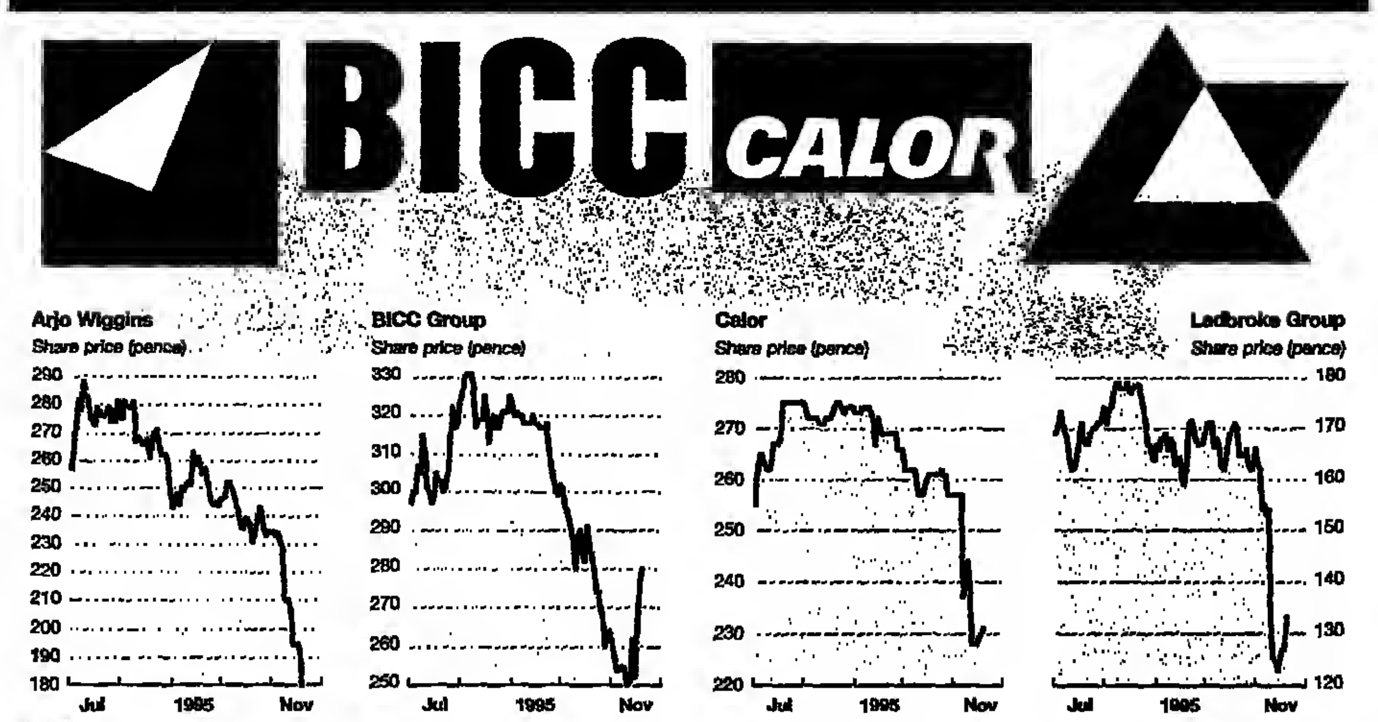
Gemina's problems stem from the crisis at RCS, compounded by a L229bn write-off of loans to the Fochi industrial group.

RCS, which owns the Rizzoli publishing house and the Corriere della Sera newspaper and periodicals group, lost L583bn in the eight months to the end of August and is expected to lose about L590bn in the full year.

Mr Francesco Varcasia, Gemina's new chief executive, said Gemina would soon launch legal action against former RCS managers "at the highest level". But he added that the last four months of the year were expected to show a reversal of RCS operating losses.

Philip Coggan looks at falling corporate expectations in the UK

Declining fortunes



Source: FT Extel

British companies take stock as demand falters

The UK economy is slowing. While many companies are still thriving, a number are being forced to make the stock market scale back its expectations for 1995 profits.

Rexam, the packaging and printing group, was the latest company to issue a profits warning yesterday, on the back of weak demand and destocking by customers. The market could have seen it coming; in the same sector, Arjo Wiggins Appleton and KNP, the Dutch group, have issued similar warnings.

Destocking seems to be a particular problem in the paper industry, where prices rosa sharply in 1994 and early 1995. Customers built up stocks on the expectation that prices would continue to rise; now that prices have fallen again, they are using up tha surplus.

It is a common problem. Mr Richard Jeffrey, Charterhouss group economist, says "there is some evidence of involuntary stock-building across the UK economy. The gross domestic product figures released yesterday show a significant contribution from stocks." However, Mr Jeffrey warns the figures need to be treated with caution because the stocks number is used by statisticians to reconcile the output and expenditure measures of GDP. Stockbuilding occurs when manufacturers overestimate the growth of final demand. UK companies could be forgiven for doing so; GDP growth has slowed from 4 per cent in 1995 to just over 2 per cent.

Companies have also been caught out by a slowdown in demand across Europe. Delta, the cables and engineering group, warned last week that destocking had caused a fall in demand for plumbing products in Germany.

The doubling in US short-term interest rates in 1994, and the accompanying sharp increase in worldwide bond yields, seem to have slowed growth across the industrialised world. ICI, the chemicals group, recently said economic slowdown in Europe and the US had cut demand for chemical raw materials and Sir Ronald Hampel, chairman, forecast static demand for chemicals until at least the end of 1995.

Other international groups have warned of slowing demand, notably BICC, the cables group, which warned of a downturn in Australia, North America and Germany.

All this is prompting analysts to lower their estimates for 1995 earnings growth. Mr George Hodgson, UK equity strategist at SBC Warburg, says the group has reduced its forecast for industrial profits growth (excluding oils) from 10.1 per cent to just over 9 per cent.

Some people hope the fall in bond yields this year and cuts in interest rates in the US, Germany and Japan will revive worldwide growth in 1996. Tax cuts and the possibility of a base rate reduction may do the trick for tha domestic economy.

But, in the meantime, individual UK sectors are struggling in the face of weak demand. As yesterday's building society lending numbers illustrated, the housing market is flat on its back.

The problem can be magnified if weak markets are combined with soaring raw materials prices, as was the case with Epwin, the PVC door and window manufacturer. The Devon-based company warned last week that prices for PVC polymers had risen by 50 per cent in 18 months, but it was unable to pass on these costs to customers because of intense competition and sluggish demand.

The volatility of raw materials prices has been a problem. SBC Warburg's Mr Hodgson says "commodity prices were roofing it through to September 1994 and since then, annual rates of commodity inflation have tended to be negative. Companies have struggled to cope with the effect on inventories."

Some profits warnings, of course, owe more to one-off events such as acts of God, or the finger of fate. In the latter category must fall Ladbroke, which warned that sales of National Lottery tickets were adversely affecting its betting business; in the former, one could cite Calor, which said that warm autumn weather had hit gas sales.

However, the news is far from universally gloomy. Some companies are reporting better-than-expected profits and Mr Robert Buckland, UK strategist at James Capel, points out that good figures from big groups such as Glaxo and BAT Industries, outweighs poor results from a host of tiddlers.

Mr Buckland believes that, in the face of weak demand, corporate UK can continue to squeeze stronger profits growth out of the same level of turnover – by controlling costs. But companies, such as Rexam, which hava depended on rising sales to keep profits moving ahead, are vulnerable, he cautions. There could be more profit warnings ahead.

Lex, Page 16

C&W row threatens US deals

By Alan Cane in London

Non-executive directors of Cable and Wireless, the UK-based telecommunications group, were last night still attempting to find a solution to an acrimonious dispute between its chairman and chief executive which is threatening to destabilise the company.

There are fears that if the clash between Lord Young, chairman, and Mr James Ross, chief executive, is not resolved quickly, significant deals in the US and Asia will be at risk. They include proposals that Nynex and Pactel, two North American local telephone operators take a stake in Cable & Wireless Inc., the North American subsidiary and one of the larger of the second-rank long-haul operators in the US.

The idea would be to capitalise on the changing regulatory position in the US market, where long-haul operators will be allowed to compete in local markets and the regional operating companies will be allowed into the long-haul business.

A second deal is thought to involve a strategic alliance between Mercury Communications, the C&W subsidiary that is the chief competitor to British Telecommunications in the UK and Nynex Cablecom, a large UK cable television and telephone group.

The significance of a deal with Nynex lies in the fact that it is the New York local operator and therefore strategically placed for the important and lucrative London-New York routes.

It is not certain that the non-executive directors will be able to present a solution today. If they cannot, it could mean calling a full board meeting to resolve the dispute between the two executives which turns on the question of who runs C&W.

Institutional shareholders expressed annoyance with the public dispute, but said they would not interfere at this stage. "Our first line of defence is the non-executive directors," one said.

"That is the way things should operate under Cadbury [a UK corporate governance report]. It is getting back to personalities and that is pretty unsatisfactory. There should not be this huge focus on personalities."

Lord Young's fate, Page 22

Japanese groups to fuse plastics divisions

By Jenny Luesby in London

Mitsubishi Chemical, Japan's largest chemicals company, is hiving off its plastics business into a Y170bn ($1.7bn) joint venture with Tonen Chemical, a subsidiary of Tonen, the Japanese oil refiner.

The move marks the latest step in a restructuring of Japan's petrochemicals sector, which has suffered from overcapacity, weak domestic demand and high costs.

The joint venture will produce the two most common bulk plastics, polyethylene and polypropylene, which are used in the car and electronics industries and for packaging.

Mitsubishi and Tonen's combined annual production will be 906,000 tonnes of polyethylene and 645,000 tonnes of polypropylene, equivalent to about 3 per cent of global capacity.

In Europe, only Montell, the joint venture between Shell and Montedison, and Borealis, formed by Neste and Statoil, are bigger producers of those plastics.

Mitsubishi hoped the joint venture would lift the combined plastics sales of Mitsubishi and Tonen to more than the existing Y170bn a year. It also expected that the new venture would "drastically cut costs by streamlining the two companies' sales activities".

The main problem for Japanese plastics producers has been the loss of their protected domestic market, as car and electronics manufacturers have moved to alternative sites. To compete for this business overseas, Japanese plastics manufacturers have come up against low-cost producers of South Korea and Taiwan, creating what Mitsubishi described as "severe competition". This has been particularly pronounced for polypropylene and polyethylene, prompting Showa Denko and Nippon Petrochemicals to merge these businesses in February this year, and Mitsui Petrochemical and Ube to do the same in April. Analysts suggest further consolidation will follow in the industry.

Mitsubishi Chemical has only moved into profits in the past year, following its formation through tha merger of Mitsubishi Petrochemical and Mitsubishi Kasei last October.

The new venture will begin operations by the middle of the year. It will also sell polyethylene for Nippon Unicar, a joint venture between Tonen and Union Carbide of the US.

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INTERNATIONAL COMPANIES AND FINANCE

EUROPEAN NEWS DIGEST

Amper upbeat over accord with Siemens

Amper, the Spanish electronics group, said it expected to ratify a wide-ranging agreement with Siemens of Germany before the year-end, adding that negotiations between the two companies were going well. Amper shares closed down Pta145, or 10 per cent, at Pta1,310, off a low of Pta1,305, on heavy turnover of 500,000 shares, with dealers citing rumours that its proposed accord with Siemens may be in trouble.

In July, the two companies signed a pre-accord whereby Siemens would take a majority stake in both the Spanish company's Amper Telematica and Amper Elasa units. As part of the agreement, a new company, Siemens Telecommunicaciones Espana, would be created which would group all the German company's Spanish telecoms assets, except those related to mobile phones, and the Spanish group's Amper Telematica unit's activities. "The possibility is remote that an agreement will not be reached and the probability is above 90 per cent," Amper said.

AFX News, Madrid

Générale des Eaux sales ahead

Générale des Eaux, the French water and waste management group, posted sales of FFr117.6bn ($24.24bn) in the first nine months, up 5.8 per cent. For the full year, the company reiterated its previous forecast of a rise in sales of between 5 per cent and 6 per cent, on a constant structure and exchange rate basis.

In the first nine months, the company said sales in France were FFr80.7bn, up 3.7 per cent from a year earlier. Broken down by sectors, water distribution sales rose by 5.9 per cent, property revenue declined, construction and civil engineering remained stable and revenue from its mobile phone operations rose sharply. Abroad, sales were FFr36.9bn, up 16.7 per cent on a comparable structure and exchange rate basis. Water distribution and electricity distribution in the US performed particularly well, it said. *AFX News, Paris*

■ Chargeurs, the French industrial group, said sales rose 17 per cent from FFr7.2bn to FFr8.45bn in the nine months to September. In the three months to September, sales rose 16 per cent to FFr2.59bn. *AFX News, Paris*

■ Euro RSCG Worldwide, the French communications group, said sales in the nine months to September were FFr18.6bn, unchanged from e year earlier. Sales on a comparable structure and exchange rate basis were 3.8 per cent higher, including a 0.8 per cent rise in France and a 5.8 per cent increase abroad. *AFX News, Paris*

■ Mr Juerg Benz, treasurer of SMH, the Swiss watch group, said he expected the company's 1995 net profit to fall from 1994's SFr315m to SFr270m ($239m). "We expect to see 1995 net profit about 15 per cent less than the year earlier," Mr Benz said in an interview with the SonntagsZeitung newspaper.

AFX News, Zurich

Telecoms growth sparks advance at Mannesmann

By Michael Lindemann in Bonn

Mannesmann, the leading German engineering and telecommunications group, yesterday reported a 13 per cent rise in new orders to DM27.9bn ($19.86bn) in the nine months ended September 30, and said its profits had "improved" compared with the same period a year earlier due to "considerable" growth in its telecoms business.

The group also reported "improvemants" in engineering activities, which range from cranes to the Leopard 2 battle tank.

Sales rose 11 per cent in the nine months to DM23.5bn, from DM21bn a year earlier – again driven by strong growth in the telecoms business, which lifted turnover 58 per cent to DM1.9bn. Mannesmann said its D2 mobile phone network now had more than 1.3m clients, including 168,000 new customers in the third quarter.

Mannesmann does not report profits for the nine-month period, bot had registered a DM141m net profit for the first six months of 1995, compared with a loss of DM27m in the first half of 1994.

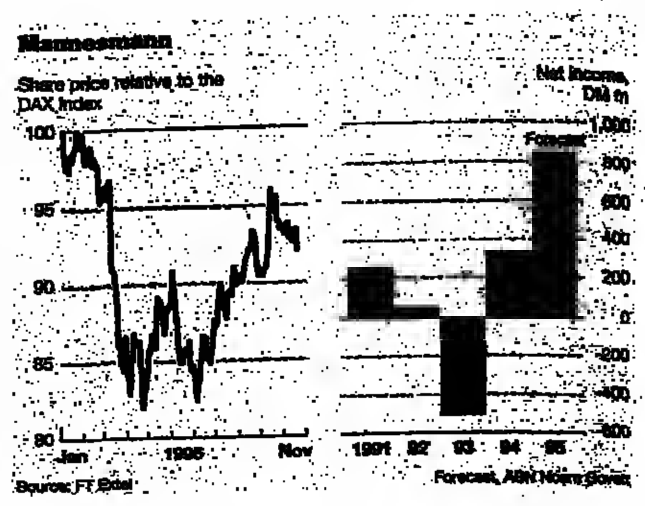
The Düsseldorf-based group made no comment on the outlook for the rest of the year. When it reported its six-month figures in August, the group said it expected "favourable" growth for the full year and that sales and new orders would exceed last year's record.

At that time Mannesmann said prospects for capital expenditure worldwids remained good and this was likely to benefit tha group's considerable engineering and plant activities.

However, Mannesmann yesterday said the strength of the D-Mark against the dollar and other European currencies continued to be a brake on sales and earnings. To counter this it is to increase its purchases in so-called soft-currency countries. It also noted that earnings from its fast growing telecoms activities were all in D-Marks.

The automotive components division, which includes VDO and Fichtel & Sachs, reported an unspecified fall in profits after the sale to a Dutch company of the Herkules, the bicycle business which last year generated sales of DM80m.

Hartmann & Braun, the loss-making electronics business sold last month to Elsag Bailey, the US-quoted process automation group, reported a 5 per cent fall in sales. The group's trading division, built around steel trading, reported a 19 per cent rise in new orders to DM3.9bn.



Finnish pulp and paper groups link

By Christopher Brown-Humes in Stockholm

The rapid consolidation of the Finnish forestry industry continued yesterday when Metsä-Serla, one of the country's leading pulp and paper groups, said it was buying stakes in parts of the privately-owned Myllykoski group for FM1.6bn ($382m).

The deal gives Metsä-Serla a 50 per cent stake in Myllykoski's German subsidiary, Albbruck, and a 35 per cent holding in Myllykoski Paper, a new grouping of Myllykoski's Finnish paper mills.

The collaboration creates Europe's third-largest producer of magazine papers and provides a base for the two groups to expand their European printing paper businesses.

Analysts believe the tie-up will eventually lead to a full-scale merger, creating a third force in the Finnish forestry sector after this year's mergers joining Repola (and its United Paper Mills subsidiary) to Kymmene, and Enso-Gutzeit to Veitsiluoto.

It also represents a success for Metsä-Serla, which had been side-lined by the mergers and frustrated in previous efforts to expand. For the first nine months of this year, Myllykoski Paper had pro-forma profits of FM151m on turnover of FM1.4bn while Albbruck produced a FM126m operating profit on turnover of FM835m.

One immediate consequence of the deal may be a decision to cancel Myllykoski's previously-announced plans to build a coated magazine paper plant with a capacity of 300,000 tonnes per year at Albbruck.

Metsä-Serla suggested yesterday it favoured expansion through acquisition.

A full merger of Metsä-Serla and Myllykoski would create a group with annual turnover of about FM19bn, against FM45bn for the forestry businesses of UPM-Kymmene – which will be Europe's largest pulp and paper group – and FM30bn for Enso-Gutzeit/Veitsiluoto.

Minorco buys German quarry group

By Judy Dempsey in Berlin

Minorco, the international natural resources group, has paid DM61.5m ($43.8m) for Kies-und Natursteinbetriebe (KNL), an east German company quarrying sand, gravel and hardstone.

The company declined to give details of KNL's trading profits or sales.

However it insisted the acquisition would not be earnings dilntive. The acquisition would strengthen the group's foothold in and around Leipzig, the second largest construction site in Europe after Berlin.

It was also part of the group's strategy of investing in niche operations in the region, Mr Nick von Schirnding, the group's investor relations manager, said yesterday.

Minorco already has three operations in east Germany, where it is the largest sand and gravel producer.

KNL, which had 100 employees on its books, was placed in receivership last year following the collapse of Mr Jürgen Schneider's building empire.

Its sale coincides with the end of the building boom in east Germany.

Deutsche Bank Research recently reported that real growth in the region's construction sector, including residential, commercial and public, would fall from 21 per cent in 1994 to 10.2 per cent this year, and to 7 per cent in 1996.

Minorco's industrial minerals division worldwide reported operating earnings of $58m for the first six months of this year, with its European operations accounting for $24m.

Tight timescale for energy offerings

Virginia Marsh on the privatisation of Hungary's utility companies

The most ambitious attempt to date at utility privatisation in the former Soviet bloc got under way yesterday with the deadline for bids for majority stakes in Hungary's five regional gas distribution companies (GDCs). A second tender for electricity utility MVM, the country's second-largest company, closes in nine days.

The sales represent the greatest opportunity to date for western utilities to buy into the east European energy sector. They will be able to establish a strategic foothold in what is expected to be the continent's fastest growing region over the next decade.

On offer are stakes of 50 per cent plus one vote in the five GDCs, whicb together had fixed assets of Ft68.3bn ($516m) at the end of last year. APV-Rt, the privatisation body, is being advised on the gas sales by N.M. Rothschild, the UK merchant bank.

MVM, which last year had revenues of Ft164.3bn and assets of Ft682.0bn, is being split up and privatised in 14 units.

A stake of 24 per cent is being offered in the core company, which will retain the national grid and Paks, Hungary's Soviet-designed nuclear plant. Stakes of between 34 per cent and 49.7 per cent are being sold in 13 non-nuclear power generation and supply companies.

The electricity and GDC sales have attracted interest from several of Europe's largest energy companies. British Gas, Gaz de France, Austria's OMV, and Ruhrgas, Bayernwerk, PreussenElektra and RWE of Germany participated in the 22 bids entered in yesterday's GDC tenders.

The German electricity utilities have also purchased information memoranda for MVM companies, as have some 20 other international companies including Electricité de France, Southern Electric of the US and UK companies PowerGen, Eastern Group, Midlands Electric and National Power.

The only company that is not expected to attract several bids is the core MVM company, due to its nuclear component.

The Hungarian authorities received bids as high as twice to four times book value for the gas companies. They hope they will get similarly high bids for MVM companies, several of which – especially on the generation side – would require significant investment, on top of the purchase price, to bring them up to western standards.

However, bids for the electricity companies may be lower than for the gas groups due to considerable uncertainties on long-term regulatory and pricing issues. This has prompted fears the government will postpone or cancel sales of companies receiving low bids as it did two years ago in an earlier attempt to sell the GDCs.

Part of the problem is the speed with which the tenders were organised. The government, a Socialist-led coalition, approved even more radical privatisation plans for the sector last autumn with a view to holding tenders in the first half of this year. It included privatisation revenues of Ft150bn in the 1995 budget.

However, after months of uncertainty, it was forced to scale back its plans in late-June due to disputes within the government and a storm of opposition from trade unions, the energy industry and the electorate. It did not re-appoint Schroders, the UK merchant bank which drew up the privatisation strategy for MVM, to advise on the electricity sales until July.

Nevertheless, the government, under pressure to meet its budget revenua targets, decided to press ahead with the sales this year, leaving itself just three months to agree on a long-term price formula and resolve many other outstanding regulatory issues in time for the publication of tender documents in October.

However, potential investors say they have been given unclear and incomplete information, especially for MVM companies. After dozens of complaints and questions, the authorities were last week forced to issue changes and corrections to the MVM tender and are expected to make further amendments this week, just days before bids are due on November 30. Bidders add that they have too short a period – 45 days – to evaluate companies and prepare offers.

"Neither we nor our very experienced advisers have ever seen a privatisation process quite like this one," one exasperated western energy executive says. He adds that from the information released so far, the utility his company is interested in bidding for could be worth anywhere between "$200m or minus $100m".

Mr Tamas Suchman, Socialist privatisation minister, insists APV Rt will be able to meet its timetable in spite of the difficulties of processing more than 100 expected bids and negotiating the sales of 19 companies in a matter of weeks. It took the authorities seven months to negotiate the sale of one independent power producer to PowerGen earlier this year.

Mr Lajos Bokros, finance minister, bowever, said in a recent interview that he did not expect revenues from the sales until "the second or third quarter of next year" due to the many problems which first needed to be resolved. Among these he listed uncertainties over energy pricing, the inclusion of the Paks nuclear plant with MVM and local government claims on utilities' assets.

Hungary survey, separate section

Gas distribution companies

	Dégáz	Égáz	Kögáz	[illegible]	Tigáz	Fogáz	Total
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total sales (m cu m)	515	1,061	503	686	2,264	2,347	7,376
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Employees	902	1,488	406	1,489	3,223	2,157	10,125
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: NM Rothschild

هكذا من الأصل

Peugeot shelves its plans for return to US market

By Haig Simonian, Motor Industry Correspondent

Peugeot-Citroën, the French car group, has temporarily shelved plans to return to the US car market, which it abandoned some years ago.

Mr Yann Delabrière, chief financial officer of the PSA holding company which controls Peugeot and Citroën, said in an interview that research had persuaded the group to drop any idea of building its own US plant.

"Our studies showed that a partnership would be the only way to proceed, if at all," he added.

The possibility of collaboration in the US was being discussed informally at meetings with other car producers. However, the participation of another manufacturer would delay any project.

Mr Jacques Calvet, PSA's chairman, has stressed the US this year as part of the group's strategy to reduce its dependence on western Europe.

PSA wants to double the proportion of cars sold outside Europe from 13 per cent to 25 per cent early in the next century. It is already active in Asia and South America.

Mr Calvet has indicated that a convincing presence in the US market could be created only by having several models and producing locally to avoid exchange rate risks. That prompted a series of studies which were due to reach a conclusion this year.

In spite of original enthusiasm for building an independent US factory, the abandonment of the idea is not surprising, in view of the cost and Mr Calvet's recent emphasis on lowering borrowings.

The change of tack comes as Peugeot is gearing up to assault the European market with its upper-midrange 406 saloon.

The new car, launched in France and Germany last month, covers a crucial segment in which Peugeot has traditionally been strong.

The new car will have to be at least as successful as its predecessor, the 405. Mr Delabrière said that most of the 0.7 per cent fall in PSA's European market share in the first nine months of this year was attributable to waning demand for the 405 ahead of its replacement.

He said that the new car should boost profits, in spite of weak demand for new cars in Europe this year and the limited growth forecasts for 1996.

PSA expects to sell more than 200,000 units of the 406 next year, at least matching the sales peak of its predecessor, which took up to 18 per cent of sales in the sector in Europe.

However, margins should be higher than on the 405 because the new model was 20 per cent cheaper to manufacture, Mr Delabrière said.

The 406 has received plaudits from the European motoring press and should consolidate PSA's position in the family car sector, where it is already well-represented by the Citroën Xantia.

Thyssen nets DM1bn from disposal of telecoms stake

By Michael Lindemann in Bonn

Thyssen, the steel and engineering group which wants to become one of Germany's leading telecoms operators, yesterday said it had raised about DM1bn ($712m) from six international financial groups through the sale of a 27 per cent stake in Thyssen Telecom, its telecoms subsidiary. Thyssen's shares rose DM6.80 to DM282.50.

The deal values Thyssen Telecom at about DM3.5bn with shares costing DM2,154 apiece. The new partners include Commerzbank, one of Germany's big three banks; West LB, the German public sector bank; a consortium headed by Westdeutsche Genossenschafts-Zentralbank; ING of the Netherlands; and Part'Com, a subsidiary of the French Caisse de Dépôts et Consignations.

Sal. Oppenheim, the Cologne-based investment bank, took a 10 per cent stake in Thyssen Telecom earlier this year but raised this to 11 per cent during the recent private placement, thereby becoming the largest shareholder.

Thyssen is one of five leading German companies which is busy gathering telecoms assets and experience in order to compete with Deutsche Telekom, the state-owned operator, once the telecoms monopoly falls across most of Europe in 1998.

Mr Dieter Vogel, the board member who takes over as chief executive of the Thyssen group next March, said the money would be used for a variety of purposes including the purchase of a 49.9 per cent stake in DBKom, the telecoms subsidiary of Deutsche Bahn, the federal railway network.

Thyssen will bid for the DBKom stake together with Bell South, the US operator with which it has a strategic alliance, and one or more German partners, Mr Vogel said. The bid for DBKom is expected to be fiercely competitive because Deutsche Bahn has the biggest long-distance telecoms network in Germany apart from Deutsche Telekom.

Mr Vogel said a decision would be made about offering a second tranche of Thyssen Telecom to private investors, possibly after the DBKom deal had been settled. Thyssen Telecom would be listed on the stock exchange by 1999 at the latest, although Thyssen Handelsunion, the trade and services division of Thyssen, would keep 60 per cent of the company.

Analysts said yesterday that Thyssen appeared to have got a good price for the stakes in Thyssen Telecom.

Thyssen is still heavily dependent on its steel activities - which made up about 28 per cent of last year's DM38bn turnover - and some fear that if the steel market goes into recession, it may have trouble finding the money needed for its telecoms investments.

Sweden's car industry slips into reverse

Third-quarter downturn has plunged the sector back into the gloom, reports **Hugh Carnegy**

Just when it seemed that long-standing worries about the viability of Sweden's car industry had been dispelled by a profits surge at Volvo and Saab, the country's two manufacturers have posted gloomy results for the third quarter.

The worst surprise came from Saab Automobile, managed and half-owned since 1989 by General Motors of the US. Saab announced a third-quarter loss of SKr322m ($49m), plunging the company to a deficit of SKr127m for the first nine months and snuffing out the glow of optimism it had generated in 1994, when it posted a 12-month profit for the first time in six years.

Saab's Swedish half-owner, Investor, the Wallenberg industrial empire's main holding company, acknowledged the extent of its concern, saying it was discussing Saab's future with GM.

Volvo Car Corporation remained in profit, but its nine-month operating profits slid 7 per cent to SKr1.98bn. In the third quarter, the operating margin shrank to 1.7 per cent, far below Volvo's own targets.

In a clear sign of stress within the organisation, Volvo announced last week that Mr Tomas Svensk, the car company's marketing chief appointed less than a year ago, had left the company - the latest in a series of senior management changes.

Yesterday, Volvo Car Corporation announced a reorganisation of its management structure to put more emphasis on marketing and profitability.

The reverses at both Saab and Volvo came in spite of a significant increase in sales, both by value and numbers of cars sold. Saab sold 26,500 cars in the first nine months, 16 per cent more than in the same period last year. Volvo pushed its unit sales up 11 per cent to 286,500 cars.

All this raises the ominous question of how secure are the long-term prospects for both operations if they cannot produce stronger results at a time when they are selling more cars - a question that was supposed to have been answered by big restructurings carried out over the past five years in response to earlier heavy losses.

Saab has undergone a deep transformation since GM bought into the company. Today's workforce of less than 8,000 is now producing a higher output than 15,000 employees achieved in 1990.

Volvo entered an alliance with France's Renault in 1990, then backed out of a full merger in 1993. But the car company, like Saab, underwent big changes to improve productivity, yet remains the weak link in the Volvo group.

Swedish car results: operating profit/(loss)

		Saab SKr m	Volvo SKr m
1994	Q1	(63)	829
	Q2	203	924
	Q3	144	516
	Q4	418	700
1995	Q1	111	930
	Q2	84	650
	Q3	(322)	350

Source: company reports

So what is going wrong?

Volvo and Saab blamed the recent strengthening of the Swedish krona for much of their troubles. With their biggest markets in the US and the UK, they have been hit by the rise of the krona against the dollar and sterling. At the same time, they suffer from the sustained strength of the D-Mark, because both groups are heavy net purchasers of German parts.

But analysts say this is not the whole story. "The krona is still at a fundamentally favourable level despite its recent trend," says Mr John Lawson of DRI McGraw Hill in London.

The other main factors cited by the companies are the heavy discounting of prices in their main markets (where overall sales trends are weak), high marketing costs, and high product development costs.

It is these areas that seem to hold the key for the future. They raise the question of whether Saab and Volvo can create attractive model ranges that can command premium prices. These would compensate for the relatively high cost base that small producers inevitably carry compared with volume car makers.

Mr Lawson believes Saab is better placed than Volvo to achieve this. "As part of the GM group, it has access to a fertile portfolio of systems and platforms. There ought not to be anything in the production economy that prevents Saab from being profitable in the medium term," he says.

But Saab is hindered by its narrow product range - making only the large 9000 and the mid-sized 900 models which both face fierce competition in a market crowded with rivals from BMW, Audi, Volvo, the Japanese producers and others.

It is developing a new 9000 model and wants to expand its range. But it cannot afford to do so without new capital commitments by GM and Investor.

"Saab's position in the marketplace is becoming tougher and tougher to defend," comments Mr Karl Ludvigsen, a motor industry consultant. He doubts Saab's ability to carve out a profitable niche, in spite of its links to GM. "It will be very difficult to build a long-term position for Saab," he says.

Mr Ludvigsen, meanwhile, reckons Volvo's post-Renault strategy of building up volumes to 500,000 cars a year against 360,000 last year, while extending its product range to encompass a broader customer span, can work.

"For all of their troubles, they have one of the best brands in the car industry," he says.

But Volvo's lack of a strategic partner means it carries a heavy cost burden for its size. "Volvo is in a situation where it has got to achieve a better than average success with every product it brings out in order to be competitive with rival European producers," Mr Lawson says. It is a tall order, and one that both Volvo and Saab have yet to prove they can meet.

Developing a successor to the Volvo 960 (above) is proving an expensive exercise

INTERNATIONAL COMPANIES AND FINANCE

AMERICAS NEWS DIGEST

First Interstate rejects Wells offer

First Interstate yesterday formally rejected a revised takeover bid from Wells Fargo, even though the hostile offer for the Californian bank is worth more than a rival, agreed bid from First Bank System. In a letter to shareholders, First Interstate said a combination with First Bank would yield stronger earnings and cash flow, and would result in less credit risk and a stronger market position.

The rejection, which had been expected, follows Wells' move last week to raise its offer from 0.625 of a share for each First Interstate share to 0.667. Wells has said it would take its offer directly to First Interstate's shareholders.

At yesterday's market price, Wells' offer was worth $140.57 for each First Interstate share, while First Bank System's was valued at $135.85. *Richard Waters, New York*

Sharp rise in Goldman bonuses

Wall Street's buoyant year has led Goldman Sachs, the US investment bank, to more than double the annual bonuses it pays to employees other than partners. The bonus level still fell short of the record in 1993, however, when investment banks' profits were lifted by a surge in global bond markets.

In an internal memorandum yesterday, Goldman said this year's bonus would be equal to 20 per cent of basic salary. That compares with 8 per cent the year before and 30 per cent in 1993.

The higher bonuses follow a rebound in earnings at the private Wall Street partnership. Pre-tax profits of $931m in the first nine months of this year were two thirds higher than a year before. *Richard Waters*

Wallace hits back in bid battle

Wallace Computer Services, the Chicago-based information handling group, has used strong quarterly earnings to buttress its defence against a hostile takeover bid by Canada's Moore Corporation. Wallace said yesterday that a 45 per cent advance in net earnings for the three months to October 31 "underscores the board's determination that the company's remaining independent is in the best interests of shareholders".

Net earnings rose from $11.6m, or 52 cents a share, to $16.8m, or 74 cents, while sales climbed 35 per cent to $214m. However, Wallace's shares continued to trade yesterday below Moore's $60 a share offer, or a total of $1.4bn. One New York trader said arbitrageurs, who are estimated to own about 40 per cent of Wallace's shares, continued to support Moore, which has threatened to walk away from the deal rather than raise its offer.

Moore is soliciting shareholder proxies in a bid to unseat Wallace's directors and overturn Wallace's "poison pill" at the US company's annual meeting on December 8. Holders of about 73 per cent of Wallace shares have tentatively tendered their stock to Moore. *Bernard Simon, Toronto*

George Weston advances 51%

George Weston, the holding company for the Weston family's food processing and retailing and resource holdings in Canada, posted a 51 per cent gain in third-quarter net profit. However the group saw sales dip 5 per cent as a result of the disposal of the US grocery supermarket subsidiary.

Net profit was C$52.3m (US$38.7m), or C$1.11 a share, against C$34.7m, or 74 cents, a year earlier, on sales down at C$3.66bn, compared with C$3.85bn. Net profits for the first nine months were C$131.2m, or C$2.78 a share, up 83 per cent from C$71.6m, or C$1.52. Sales advanced from C$9.8bn to C$10bn. *Robert Gibbens, Montreal*

TV groups in Latin America link-up

By Christopher Parkes in Los Angeles

Four leading television programming and distribution groups, led by Mr Rupert Murdoch's News Corporation, have joined forces to create a satellite service covering Latin America.

The deal will close one of the last significant holes in News Corp's global TV coverage, which includes the Fox Network in the US, BSkyB in the UK and Star TV in Asia.

The venture partners will pool a potent blend of resources including sports, soaps, film and magazine material.

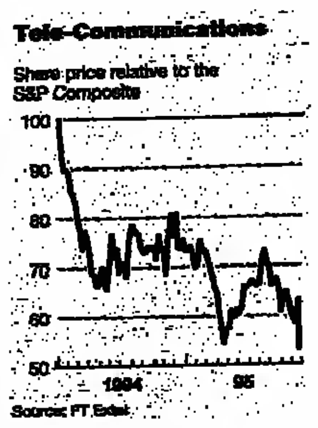
Although analysts suggested that it would be years before the deal was profitable, they also noted that it would make it difficult for any prospective competitors to make their mark in Latin America.

The partnership's resources will include Netsat, a recent joint venture in direct-broadcast satellite TV between News Corp and Globo, the largest media company in Brazil.

This will be enhanced by the addition of Mexico-based Grupo Televisa, the biggest Spanish-language programming provider in the world, and TCI International, a subsidiary of Tele-Communications Inc, which is the biggest cable TV group in the US.

Sports programming, provided by a recently-announced joint venture between News Corp and TCI, is likely to comprise a significant portion of the material to be beamed down when the service starts early next year.

Apart from English-language channels in the US, TCI also supplies Spanish-language sports services in its home market and in Mexico.



News Corp already had a foothold in Latin America in the form of its El Canal Fox channel, which feeds dubbed Fox television programmes and films into an estimated 3m homes. Mr Murdoch said earlier this year that he expected to invest $500m in the Netsat venture with Brazil's Globo, which was expected to attract 4.5m viewers within a few years.

The new venture represents a substantial investment in direct-to-home satellite services, which some analysts see as the preferred route for providers of TV and other electronic services – especially in regions with underdeveloped infrastructures.

PanAmSat, a private satellite operator, in which Televisa has a large minority stake and which plans to have four satellites serving Latin America by 1997, was named yesterday as a service provider to the partners.

Other participants include Intelsat and News Datacom.

Apple and IBM close software venture

By Louise Kehoe in San Francisco

Apple Computer and IBM have quietly closed one of the joint ventures they formed four years ago as part of a broad effort to counter the dominance of Microsoft and Intel in personal computer technology.

Kaleida Labs, a Silicon Valley multimedia software development company, is to close in mid-January, IBM and Apple said. Financial details were not revealed.

Formed as a 50-50 joint venture in 1991, Kaleida was aimed at creating software that would establish multimedia standards for personal computers, video game machines and interactive television.

After long delays, the venture recently completed development of a multimedia programming language, called ScriptX, which will now be transferred to a development group at Apple.

Both IBM and Apple said that they planned to use the technology.

The closure comes as other aspects of the four-year old "grand alliance" between IBM, Apple Computer and Motorola appear to be losing momentum. Originally, the three companies agreed to develop jointly PowerPC microprocessors, which IBM and Apple would use in new compatible computers.

However, while Apple is now using PowerPC chips in most of its Macintosh products, IBM has backed away from plans for a PowerPC personal computer.

Recently, IBM transferred development work on PowerPC products out of its PC organisation to the IBM division that develops high-performance computer workstations.

IBM "has no plans for a high volume platform based on PowerPC", Mr Bob Stephens, head of IBM's PC business, said last week.

The closure of Kaleida Labs has raised questions about the future of Taligent, a second IBM-Apple joint venture centred on object-oriented software technology, which enables software "components" to work together, speeding up software development.

Hewlett-Packard became a partner in Taligent about two years ago. IBM and Apple both said they remained committed to Taligent's technology.

Pegasus Gold details plans to boost output

By Kenneth Gooding, Mining Correspondent

Pegasus Gold, the North American mining company, will spend US$300m over the next three years to lift its output by one-third to about 725,000 troy ounces in 1998, Mr Werner Nennecker, president, said.

In presentations to European analysts and investors, Mr Nennecker pointed out that in the past three years the entire management team and the company's strategic approach had been changed. Pegasus was on course to reach its target of producing 1m ounces a year by the turn of the century.

Mr Phillips Baker Jr, chief financial officer, gave assurances that Pegasus would not turn to shareholders for cash to complete the expansion programme.

Cash flow would provide between $140m and $160m a year. Pegasus had $67m cash and would by the year-end put in place a six-year, $150m revolving credit facility.

Capital spending would peak at $225m in 1996 before dropping to $64m in 1997.

The company hedged some of its output to cover cash flow requirements, Mr Baker said.

It has hedged 247,000 oz at prices up to $438 an oz this year, and will hedge 329,000 oz at prices up to $485 next year and 314,000 oz at prices up to $469 for 1997.

Mr Baker noted that the hedging covered only 9 per cent of Pegasus's total proven and probable reserves, which had advanced from 4.6m oz in 1994 to 7.8m oz.

Mr Nennecker said that the expansion programme was expected to cut cash production costs from an estimated $263 an ounce this year to $248 in 1998.

Growth would come from four projects in particular: expansion of the Mount Todd mine in Australia, at a cost of $150m; the Pullalli project in Chile, at a cost of $50m; expansion at the Zortman mine, Montana, at $56m; and at Florida Canyon, Nevada, at $34m.

LEGAL NOTICES

No. 006209 of 1995

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
SERCO SYSTEMS LIMITED
AND
IN THE MATTER OF
THE COMPANIES ACT 1985

Notice is hereby given that the Order of the High Court of Justice (Chancery Division) dated 1st November 1995 confirming the reduction of the share premium account of the above named Company from £3,900,000 to £197,000 was registered by the Registrar of Companies on 6th November 1995.

Dated this 14th November 1995

Nabarro Nathanson
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: FA/SXN/52 832

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

Name of company. Mortimer Fruit Shops Limited. Registered number: 1661100. Nature of business: Wholesale and retail sale of fresh fruit and vegetables. Trade classification: 12 and 16. Date of appointment of administrative receivers: 13 November 1995. Name of person appointing administrative receivers: Lloyds Bank Plc. Graham Lindsay Down and Richard William James Long Joint Administrative Receivers. Office holder numbers: 6600 and 6059. Address: Begbie Norton & Partners, 27 Queen Square, Bristol BS1 4ND

INTERNATIONAL COMPANIES AND FINANCE

Hopewell's Wu backs Bangkok deal

By Simon Holberton in Hong Kong

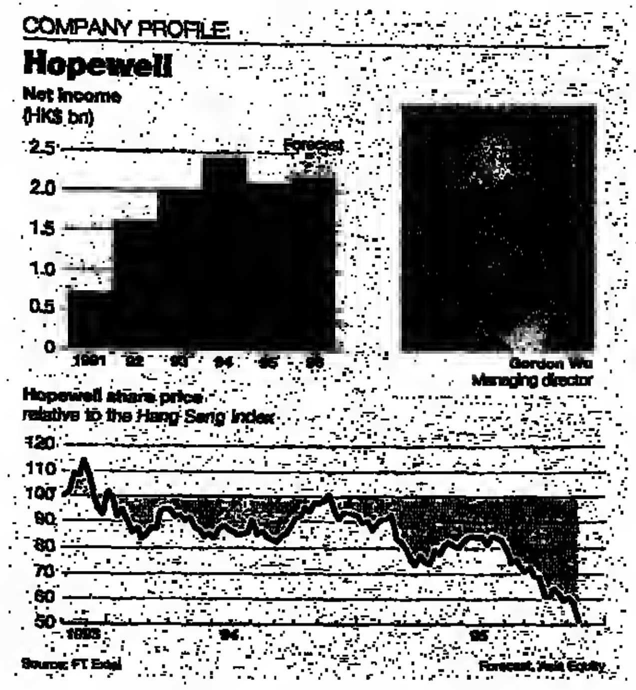
Mr Gordon Wu, managing director of Hopewell Holdings, yesterday dismissed advice from Hong Kong bankers that the property and infrastructure group should quit its Bangkok mass transit project.

As Hopewell's share price continued to slide on investor concerns over the Bangkok project, Mr Wu rejected bank recommendations to quit: "It's not up to the banks to decide what to do. There is not a single dollar of bank money in it."

Last week, Hopewell shares fell 10 per cent. Yesterday they closed 10 cents lower at HK$4.075.

The mass transit project in Thailand's capital, launched three years ago at the height of east Asia's "infrastructure fever", has already cost the company Bt8.5bn ($338.6m) of an estimated Bt60bn for the first 40km phase of the project.

"[Mr Wu] has got big projects on the horizon, but there is a question mark over the Bangkok project," one banker said. "He should cut his losses and get out of it and concentrate on what he's got."



Analysts, who are otherwise relaxed about Hopewell's financial condition, also said that forecasting future earnings had become guess work because the terms of many of the company's big projects are up for renegotiation.

Mr Wu said he remained committed to the Bangkok project, which is a combined road, light rail and commercial property development. It has been dogged by delays and cost overruns, mostly reflecting the difficulty outsiders have in doing business in Thailand.

While he admitted there had been problems, Mr Wu said the project had proceeded well since it received the support of Thailand's king earlier this year. "We are now getting 80 per cent approval for what we want to do. We are making tremendous strides," he said.

He also sought to counter the impression in Hong Kong that his company was strapped for cash. "At present we have HK$6bn (US$776.2m) in the bank, [analysts] don't know what the hell they are talking about," he said.

In general, bankers said they were comfortable with Hopewell's other projects, even though some had not turned out as forecast. They said Hopewell's superhighway, connecting Shenzhen to Canton, cost HK$5.5bn more than expected but this was due to road improvements, not cost-overruns as some thought.

Relegation from Morgan index hits Indosat shares

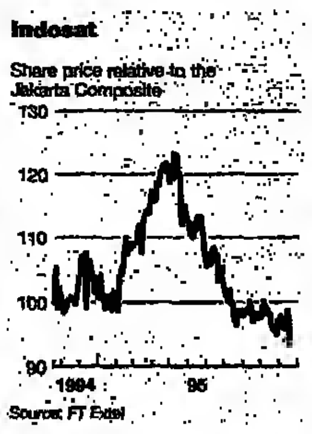
By Manuela Saragosa in Jakarta

Sheres in Indosat, the Indonesian satellite telecoms company, dipped 10 per cent on the Jakarta Stock Exchange yesterday after Morgan Stanley announced it would be replacing Indosat with Telkom, the domestic telecoms company, in its Morgan Stanley Capital International Indonesia Index.

Indosat shares fell to an intraday low of Rp6,200 but recovered to close at Rp6,800, as fund managers sold Indosat stock to match their portfolios with the MSCI Indonesia Index. Telkom shares closed unchanged at Rp2,125.

MSCI said the move, which will take effect at the close of trade on December 1, would avoid overweighting the telecommunications sector in its index of Indonesian shares.

The decision is seen as controversial among some investment bankers who note that Morgan Stanley acted as adviser to Telkom for its initial public offering. "It certainly forces some people to buy Telkom shares," said a director at a Jakarta-based Singaporean brokerage firm.



The international tranche of Telkom's offer was halved to avoid a price slide in secondary market trading following weak demand for the stock.

Indosat and Telkom are now the Jakarta Stock Exchange's two largest capitalised stocks, with trading in Indosat shares regularly accounting for between 30 per cent to 40 per cent of daily volume on Indonesia's notoriously illiquid market.

In a related development, Mr Mar'ie Muhammad, the minister of finance, appointed officials to new posts in his ministry in his second reshuffle of the finance department in the past six weeks.

Political observers say the reshuffles could signal a rethink of the government's privatisation programme following the Telkom fiasco.

Mr Jusuf Anwar, formerly secretary general at the finance department and part of the government's privatisation team, has been moved to a lower-ranking position as head of the department's research and training division. He is replaced by Mr Dono Iskandar, former head of the expenditure, budgeting, credit and state finance analysis board.

Last month, Mr Becelius Ruru, former chairman of the capital markets supervisory board was appointed director-general of state-owned companies and succeeded by one of his deputies, Mr I Putu Ary Suta.

Indian Oil to float further 10%

By Shiraz Sidhva in New Delhi

Indian Oil Corporation, India's largest state-owned oil company, said yesterday that it would place a further 10 per cent of its equity after March 1996 to finance new projects worth Rs160bn ($46m).

The corporation earlier this year became the first public sector enterprise to offer shares to the public, when it floated 9 per cent of its equity in line with the government's policy of reducing state ownership of Indian businesses.

Mr R.K. Narang, Indian Oil's chairman, said the company hoped to raise Rs120bn by placing 5 per cent in the Indian market and $350m through another 5 per cent offered on the international market.

Mr Narang added that despite depressed conditions on the Indian market, IOC would have to raise money to fund Rs100bn worth of projects on hand and projects worth Rs60bn in the pipeline.

IOC, with a Rs250bn turnover, operates six of India's 12 oil refineries.

Air NZ and Ansett await clearance

Air New Zealand and Australia's Ansett Airlines last week brought to an end months of negotiation and speculation, when they announced outline plans for a tie-up. But before the transaction flies, there are some large obstacles to overcome.

There are two obvious problems. First, what will happen to Ansett New Zealand, the only significant competitor to Air NZ in its home market?

Second, if Air NZ does eventually move to 50 per cent ownership of Ansett, will this jeopardise the latter's designation as a substantially Australian-owed airline, and thus create problems for its international route authorities?

While the second matter is not immediately pressing given the structure of the deal, the former is expected to exercise New Zealand's Commerce Commission, the competition watchdog, over the next few months. Already, the commission has indicated it will take until March next year to examine the implications – assuming that Air NZ/Ansett make a formal filing shortly.

The agreement announced Friday provides initially for TNT, the Australian transportation group, to sell half of its 50 per cent holding in Ansett to Air NZ, for A$200m.

Air NZ would then have the right to buy the other half by early-1998 for A$225m. If Air NZ fails to exercise this right, TNT could repurchase the original stake for the price paid.

In the meantime, there would be moves towards a commercial alliance. Air NZ would also assume part of TNT's capital commitments over the buy-out period.

The genesis of the deal – and the reason why Air NZ has pursued the acquisition of a stake in Ansett so persistently, negotiating first with Mr Rupert Murdoch's News Corp, which owns the other 50 per cent of Ansett, before switching to TNT – lies in the NZ carrier's quest for growth.

Air NZ was created by the merger of the country's international airline and its domestic air services operator, NAC. In 1989, it was sold off to Brierley Investments and three international carriers, including Qantas. A condition of the sale was that Brierley sell on part of its holding to investors generally, through a stockmarket flotation of the carrier.

Since this two-stage privatisation, Air NZ has generally fared well, pushing down costs and proving fairly resilient during the 1990s recession. But with a small domestic market, there is the question of how it continues to expand.

> The agreement announced last week provides initially for TNT, the Australian transportation group, to sell half of its 50 per cent holding in Ansett to Air New Zealand for A$200m

Any hopes of direct access to the much larger Australian market were dealt a blow last year when the Australian federal government unilaterally withdrew from a planned "open skies" arrangement with New Zealand.

Air NZ did acquire some "beyond rights" from Australia, but these are already fully used. This means that any further route expansion for the NZ airline – using Brisbane, say, as a stop-over point to the lucrative and fast growing Asian market – is impossible.

In the meantime, BA's purchase of a 25 per cent stake in Qantas, Australia's other national airline, and the growing "co-operation" between these two carriers has presented Air NZ with formidable competition on its doorstep. Qantas can offer "one-stop", seven-day frequencies on most of Air NZ routes, for example.

Within New Zealand, some analysts have argued that Air NZ should not be overly ambitious, and "stick with its knitting" rather than tackle Ansett, which has been losing domestic market share to Qantas and is likely to make losses this year. Increasingly, however, these views have been in the minority.

Neither TNT nor Air NZ are keen to discuss what detailed proposals they will put to the Commerce Commission to deal with the Ansett NZ problem. However, Mr Jim McCrea, Air NZ's chief executive, has said that the operations, which recently moved into profit after six years of heavy losses, will be "ring-fenced".

"Our relationship clearly has to be hands-off. If we make this investment, we will have to maintain that situation," he has said.

Such reticence by the carriers themselves has not stopped analysts from speculating. Some suggest Air NZ may be willing to leave ownership of Ansett NZ in the hands of TNT or News Corp.

Alternatively, Ansett NZ could be sold to a third party for a nominal sum. There has even been the suggestion these operations could be floated off as a separate entity, although this is not thought likely.

From the Australian standpoint, regulatory matters may be simpler. Although the deal will need Foreign Investment Review Board approval and will also be examined by the federal transport minister, it would seem to achieve what the government was seeking when it pulled out of the open skies arrangement last year - namely, a duopoly in the trans-Tasman air service market.

"This solves the problem of introducing a third airline to Australia; what this does is make Ansett a stronger competitor," one analyst said yesterday.

Ansett, runs the argument, will gain from Air NZ's energetic management capabilities, and from the feed which the NZ carrier can provide. While Qantas may have a slightly tougher time as a result, there will at least be no introduction of significant new capacity and probably no all-out price war. "I don't think Air NZ and Ansett would be stupid enough to slash the hell out of the market," the analyst argued.

As for the problems posed by the degree of non-Australian ownership of Ansett, there is a broad assumption that these are not insurmountable – at least, by 1998.

That said, with discussions due to start this week, the official comment from the regulatory authorities is that the matter is "complex".

Terry Hall in Wellington and Nikki Tait in Sydney

COMPANY NEWS: UK

Alan Cane and Peggy Hollinger explain the row over group strategy at Cable and Wireless

Lord Young's fate hangs in the balance

Cable and Wireless's non-executive directors met yesterday afternoon at a secret London rendezvous to settle the fate of its chairman and chief executive. More than two hours later, no decision had been communicated to company headquarters.

Lord Young of Graffham, appointed executive chairman in 1991, and Mr James Ross, named chief executive in 1992, are locked in an acrimonious dispute over group strategy. Tensions between the two finally broke into the open late last week. Mr Ross rejected a proposal from the non-executives that he should quit early in the new year, leaving Lord Young to retire at a time of his own choosing: his 65th birthday on February 27 1997.

Mr Ross wants to set and implement group strategy without what he sees as interference from Lord Young.

Lord Young is believed to be disappointed with what he sees as Mr Ross's failure to create a coherent and credible strategy for the group. Critics say C&W, with chief interests in the US, Europe and Asia and a string of minor operations elsewhere, resembles more an investment trust than a telecoms company. There are fears that the dispute could damage ambitious deals that the company has been planning to stabilise its international strategy.

The deals at risk include a plan for Nynex and Pactel, both US local telecoms operators, to take a stake in Cable and Wireless Incorporated. A second deal would involve an alliance between Mercury Communications, C&W's UK subsidiary, and Nynex Cablecomms, one of the most aggressive UK cable operators.

Veba, the German group which is C&W's largest shareholder, said: "There are questions that need to be resolved concerning C&W's strategy and also about the way the company presents itself worldwide. We welcome the fact that it has now come to a point where these issues will be clarified."

C&W's institutional investors were yesterday angry that the row seemed to have escalated to boiling point with little warning. "It is totally unhealthy and has to be sorted," said one.

Trevor Humphries

James Ross, left, and Lord Young: tensions have been growing over the past few months

However, they were divided on how the non-executives should resolve the issue. Some said that if Lord Young and Mr Ross could no longer work together, the chief executive should go and the chairman depart as soon as a suitable replacement was found. This could be earlier than Lord Young's previously announced departure date.

Others, however, said the non-executives should decide based on which man had the best experience to run the company. "If I were in a shipwreck and had these people in my crew, I would have to ask which one do I kick overboard. Well, it would have to be Lord Young. I think I would prefer to give Ross a free rein than Lord Young," said one.

Rexam warns and makes $41m purchase in US

By Patrick Harverson

Shares in Rexam dropped 37p to 335p yesterday after the packaging and printing group issued its second profits warning in four months.

The warning overshadowed the announcement that Rexam was paying $41m for Mark Industries, a Connecticut-based company which supplies packaging to the US lipstick case market. This year Mark, which has assets of $21m, is expected to report sales of $45m and operating profits, after exceptionals, of $3.5m.

The UK-based Rexam, formerly known as Bowater, is the latest company in the European packaging, printing and paper industries to have warned of deteriorating trading conditions in the second half of the year.

Since the summer, profit margins have been squeezed by the inability of companies to pass on higher pulp and other raw material prices and by second-half destocking by customers reacting to an easing in end-product prices.

Margins are expected to fall from a little less than 10 per cent to about 8 per cent by year-end.

In the past two weeks Arjo Wiggins Appleton, the Anglo-French paper group, KNP-BT, the Dutch paper group, and James Cropper, the Cumbria-based paper and board manufacturer, have issued profits warnings or announced lower results.

Today, the UK group De La Rue is expected to announce results which are likely to be short of market expectations.

Yesterday Rexam said that falling sales since the summer would leave pre-tax profits for the year at £185m ($292m). That would be about 20 per cent short of 1994's £231m and well below the £250m to £270m forecast by analysts at the beginning of the year.

Demand has weakened so far that production at Rexam's speciality paper mills had fallen sharply, with as much as 40 per cent of one mill's production capacity lying idle.

Rexam said destocking would account for about half of the profits shortfall.

It added that a dramatic decline in plastic resin prices since July and signs of weakening paper prices would cause some stock losses. In addition sales of windows in Germany would significantly curtail profits in its building and engineering division.

Yesterday's drop in Rexam's shares means they have now fallen more than 35 per cent since July.

Emap gets lift from acquisitions but fears slowdown in second half

By Christopher Price

Record circulations from magazines as diverse as Trout Fisherman and More! helped Emap, the publishing and media group, report a 53 per cent rise in half-year pre-tax profits from £22.2m to £33.9m ($54m).

However, Mr Robin Miller, chief executive, warned the advertising market was likely to slip in the second half, with like-for-like growth of 6 per cent forecast against the 8 per cent in the first half.

The increase in profits came ahead of analysts' expectations, who raised their pre-tax profit forecasts from £82m to £85m for the full-year.

Mr Miller said the group had offset a sharp rise in paper prices through a cut in group costs and "quite buoyant" advertising income, which accounts for half of group revenues.

The figures were also lifted by the radio and publishing acquisitions, including the first full interim contribution from the French magazine division bought for £106m, 18 months ago.

Group turnover increased 43 per cent to £334.1m for the half-year to September 30. This included a 13 per cent rise in the UK magazines, which comprises 90 magazines, to £107.1m. Operating profits rose 27 per cent to £17.7m.

The French magazine business, whose 38 titles have an 11 per cent market share, contributed £6.6m profits on sales of £81.2m. Advertising revenues grew 11 per cent, with circulation revenues up 2 per cent.

Profits from the business communications division more than doubled to £8.8m on sales 65 per cent ahead at £77m, helped by a first contribution from the European publishing business of Maclean Hunter.

Radio, one of Emap's biggest growth areas, posted a jump in profits and sales. These were helped by the first full six-month contribution from Trans World Communications. Profits more than trebled to £5.4m on sales more than doubled at £17.4m.

L&G buys SGIC life side for A$94m

By Nikki Tait in Sydney

Legal & General Australia, an offshoot of the British insurance company, and SGIO Insurance, the recently privatised Western Australian-based general insurer, yesterday emerged as the joint buyers of the insurance operations of the South Australian government – known as SGIC – for A$170m.

L & G will buy the SGIC Life business for A$93.8m, and will also be given an investment management contract for the South Australian government's compulsory third-party insurance pool. Meanwhile, SGIO Insurance will acquire SGIC's health and general insurance operations for A$52.1m.

The buyers will also purchase 50 per cent interests in SGIC's head office building in Adelaide for A$24m.

SGIC had a gross written premium of A$248m in the last financial year, with about 250,000 policyholders. It has a staff of about 685.

The insurer, which was set up primarily to provide an alternative source of a motor and bousehold insurance in tha 1970s, ran into financial problems between the late-1980s and early-1990s. These were mainly because of difficulties in its property investment portfolio and diversification into "high risk" insurance.

There have since been management changes and a restructuring.

Under tha deal, the South Australian government will retain ownership of the compulsory third-party insurance fund, through its Motor Accident Commission.

Proceeds from the sale will be used to repay state government debts.

Placing values Cash Converters at £23.9m

Cash Converters International, the Australia-based retailer, is coming to the Stock Exchange with a value of £23.9m ($38m).

Some 34m shares, 34 per cent of the enlarged equity, have been placed at 23.8p, raising £8.1m before expenses. Proceeds will be used to fund expansion, which is being concentrated on Europe.

The company has 124 franchised stores, specialising in second-hand goods, in Australia with a further 68 in the UK, France, New Zealand, South Africa and Canada. It is forecasting operating profits of A$1.41m (£670,000) for the six months to December 31.

Dealings are expected to start on November 30.

Unilever's Nigerian merger approved

By Paul Adams in Lagos

Shareholders have approved the N4.2bn ($51m) proposed merger between Unilever Nigeria, a wbolly owned subsidiary, and Lever Brothers Nigeria, 40 per cent owned by Unilever. It would be tha largest corporate deal by qnoted companies in Nigeria.

A share exchange between the two companies gained near unanimous approval at an extraordinary meeting in Lagos. The boards are applying for clearance from Nigeria's authorities for the merger, which would gives Unilever control of the enlarged LBN.

Unilever would become the first multinational to taka a majority stake in a Nigerian company since recent legislation scrapped limits on foreign ownership in manufacturing and other non-oil sectors.

Other multinationals, which had their shareholdings cut to 40 per cent by decree in the 1970s, plan to follow suit.

This deal, in which IBTC, the Lagos merchant bank, is the adviser, will complete the restructuring of Unilever's investments in Nigeria.

This began in 1994 with the sale of UAC Nigeria, apart from the AJ Seward skin products business. This formed the core of Unilever Nigeria along with cash from tha disposal and two years' dividends from LBN.

Filofax lifted by European growth

By Geoff Dyer

Filofax, tha USM-quoted personal organiser concern, increased interim pre-tax profits by 37 per cent helped by strong sales growth in continental Europe.

Turnover was 45 per cent higher at £19.9m ($31m) in the six months to September 30, which led to pre-tax profits rising to £2.91m (£2.12m).

However, although tha figures were in line with analysts expectations, the shares fell 6p to 269p after several directors sold shares.

Sales growth came largely from personal organiser business, providing 75 per cent of turnover and profits. In continental Europe turnover was up 50 per cent. Mr Robin Field, chief executive, said there was more growth to come on the Continent. "There is no reason why we should not have the same sales in Germany and France as we have in Sweden," where the group already has a large market share.

UK sales were more than 10 per cent higher, Mr Field said, despite its being a mature market. The acquisition of Topps of England, which produces the Microfile brand of organiser, gave it a UK market share of 85 per cent.

Analysts are forecasting an increase in full-year pre-tax profits to £6.8m (£4.92m) and expect turnover to continue to rise.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
ABI Leisure	Yr to Aug 31	85.3	(70.6)	4.22	(3.58)	9.7†	(8.4)	2.93	Dec 29	2.71	4.35	4.06
Applied Holo	6 mths to Sept 30	3.47	(3.39)	0.051	(0.310L)	0.2	(1.4L)	-	-	-	-	-
Capitol	6 mths to Sept 30	4.56	(3.51)	0.638	(0.542)	4.51	(3.92)	1.33	Dec 15	1.2	-	3.6
Cropper (James)	6 mths to Sept 30	27.8	(23.6)	0.603♠	(1.2)	4.6	(9)	1.1	Jan 12	1.1	-	3.7
DBS Management Φ	6 mths to Sept 30	33.8	(26.8)	1.31♠	(1.09)	12.9	(11.7)	3.5	Dec 19	nil	-	6
Diploma	Yr to Sept 30	216	(192)	27.4♥	(25♥)	31.7	(28.9)	10	Jan 11	9.5	14.5	13.5
Emap	6 mths to Sept 30	334	(234)	33.8	(22.2)	10.8	(7.9)	3.7	Jan 12	2.5	-	9.75
Filofax §	6 mths to Sept 30	19.9	(13.7)	2.91	(2.12)	7.4†	(6)	1.35†	Mar 29	1.05	-	2.625
South Staffs Water	6 mths to Sept 30	30.4	(30)	7.71	(7.09)	95	(86)	23	Jan 2	19	-	68

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Eurotrust	Yr to Sept 30	258.4	(227.7)	0.918	(0.812)	1.49	(1.35)	1.25	Dec 22	1.23	1.25	1.23
F&C German	6 mths to Sept 30	158.4	(143.3)	0.505	(0.333)	1.28	(0.85)	-	-	-	-	0.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. ♠After exceptional charge. ♥After exceptional credit. ΦAim stock. §USM stock.

CONTRACTS & TENDERS

NOTICE OF FINAL HEARING IN THE APPLICATION BY MONTREAL TRUST COMPANY OF CANADA IN RESPECT OF SERIES 1, SERIES 2 AND SERIES 3 BONDS ISSUED BY OLYMPIA & YORK FIRST CANADIAN PLACE LIMITED

TAKE NOTICE that the final hearing (the "Final Hearing") by the Ontario Court (General Division) (the "Court") of Application No.B287-95 (the "Application") under Rule 14.05(3)(a), (b), (c) and (f) of the Rules of Civil Procedure of the Province of Ontario, Canada (the "Rules") by Montreal Trust Company of Canada ("Montreal Trust"), in its capacity as trustee for the holders of the 10.70% Series 1 Secured Bonds due November 4, 1993 ("Series 1 Bonds"), 11.00% Series 2 Secured Bonds due November 4, 1998 ("Series 2 Bonds") and 11.00% Series 3 Secured Bonds due November 4, 1993 ("Series 3 Bonds") (collectively, the "Bonds") issued pursuant to the Trust Indenture for Secured Bonds dated as of September 19, 1988 between Olympia & York First Canadian Place Limited and The Royal Trust Company, as former trustee, as amended and supplemented (the "Trust Indenture"), is scheduled for Tuesday, December 5, 1995 at 2:30pm. (Toronto time) at 145 Queen Street West, Toronto, Ontario, or as soon thereafter as counsel may be heard.

The Final Hearing will proceed only in the event the holders of the Bonds (the "Bondholders") approve the restructuring plan to be considered at the Special Serial Meetings of the Bondholders to be held Tuesday, November 28, 1995, in accordance with the Notice of Special Serial Meetings dated October 13, 1995. At the Final Hearing, Montreal Trust will seek an order concerning the fairness of the restructuring plan to the holders of each series of Bonds and directing Montreal Trust to effect the restructuring plan. Copies of the Notice of the Application, together with other materials concerning the restructuring, have been mailed to registered holders of the Series 1 Bonds and the Series 2 Bonds and made available to the holders of the Series 3 Bonds through Bank of Montreal in London, England, the principal paying agent for the Series 3 Bonds, and through Euroclear and Cedel Bank.

Any Bondholder or any other interested party may appear at the Final Hearing in person or by counsel. Any Bondholder or any other interested party desiring to appear at the Final Hearing is required to file with the Commercial List/Bankruptcy Court Office, Ontario Court (General Division), at 145 Queen Street West, Toronto, Ontario, and serve upon Montreal Trust, on or before 2:00 p.m. (Toronto time) on Monday, December 4, 1995, a Notice of Appearance including such party's address for service together with any evidence or material which are to be presented at the Final Hearing, all in accordance with the Rules. Service on Montreal Trust should be effected by delivery to the solicitors for Montreal Trust, McCarthy Tétrault, at Suite 4700, Toronto-Dominion Bank Tower, Toronto, Ontario, M5K 1E6, Attention: Malcom M. Mercer. If a party does not attend, either in person or by counsel, at the Final Hearing, the Court may make such order as it shall deem fit, without any further notice to such party. Only those Bondholders who deliver a Notice of Appearance in accordance with the Rules will be entitled to be served with any further documents, to receive notice or to take any further steps in the Application.

Dated November 21, 1995
MONTREAL TRUST COMPANY OF CANADA, as Trustee

Text of a letter by R W Rowland, the second largest Shareholder in Lonrho, being sent to all Lonrho Shareholders

LONRHO-IMPALA PLATINUM MERGER

DOES IT ADD UP?

20TH NOVEMBER 1995

Dear Lonrho Shareholder,

The Board of Lonrho proposes a merger of its platinum assets with a competitor, the Impala platinum mines, which are owned by Gencor. Lonrho would receive shares in Implats, a subsidiary of Gencor. The Lonrho platinum mines in South Africa are the company's major asset, and for this reason your vital interests as an investor are concerned. As Lonrho shareholders, you have financed the platinum mines from their inception, and should reap the benefit.

In broad terms, Lonrho's platinum mines are young and healthy, excellently managed and South Africa's lowest cost producers. Impala is bigger, but is in more difficult ground and is less cost efficient. Impala is also an older mine and part of a group which has already mothballed two platinum mines. In the past few years Lonrho has received varied offers from Gencor to take over Lonrho's platinum Division. It's hardly surprising.

The Lonrho Board has now published the terms for an agreed merger. These terms are not good enough, when it is realised that as formulated they result in:

❶ A price far less than that envisaged by stockbrokers and analysts in the past two years.

❷ Loss of ultimate control of Lonrho's biggest asset.

❸ Loss of Lonrho's central attraction for outside investors or bidders.

❹ Loss of direction at Lonrho, which promised to expand and support its core activities, specifically mining.

❺ Exclusion worldwide from any further platinum dealing or mining by Lonrho.

❻ Vulnerability to 'creeping control' by Gencor. In my opinion, further purchases of a major block of Lonrho shares would, combined with this merger, put Gencor in control of Lonrho without a full offer.

In commenting on the terms, I rely on forty years of negotiating experience in the mining industry of Southern Africa as a mine owner, as a director of Rio Tinto companies, and at Lonrho where I remain the second largest shareholder. There can be no objection to the right deal for Lonrho.

It is my firm belief that this is the wrong deal and should be voted down in the interest of Lonrho and its shareholders.

Listed below are the material difficulties which need to be explained by the Board before the EGM on 30th November, if shareholders are to reach an informed decision.

Yours sincerely

R W Rowland

WHAT WILL THE REALIZED VALUE OF THE LONRHO PLATINUM DIVISION ('LPD') BE FOR LONRHO AND ITS SHAREHOLDERS IN THE PLATINUM MERGER?

£402m

On page 3 of their circular the Board of Lonrho assigns a value of about £402 million for the 29,168,425 shares of Implats that Lonrho finally expects to receive for the Lonrho Platinum Division.

£46m shareholder loans

Lonrho has shareholder loans of £46 million to LPD. According to the public Implats statement 'Lonrho will cede to Implats its claims on loan accounts against LPD amounting to R262.8 million.' (£46 million).

Is this an amount the shareholders have to deduct from the stated value of £402 million? If yes, this is a large sum to forego and against what is the cession made?

£36m giving up a claim

Did the Board in its calculations deduct the value of the R204 million claim by Lonrho against Implats/Impala over the Karee Mine deal? This claim is well founded and was strongly supported by the Board of Lonrho. ***Did the Board take the advice of an independent mining specialist and legal counsel before giving up a claim of £36 million as a concession to Implats in this merger?***

Dividends

On page 3 of the circular the Board says: 'Dividends have not been paid by LPD to Lonrho for several years, because of constraints imposed by the working capital and capital expenditure requirements of LPD.'

Did the Board take into **account that Lonrho is replacing a cash flow** (which can be regarded as a dividend payment) **of between £6-10 million annually in interest payments *on* the *shareholder loans to* LPD, *with an* insecure cash flow from dividends?**

Is it correct to say that prospective dividends from Implats would be subject to 25% taxation in South Africa, whereas the interest payments are tax free for Lonrho and tax deductible to LPD in South Africa?

Does Lonrho have a guarantee from Implats for about £10 million payment of dividends before taxes, or not?

Value capped by Put Option

Did the Board consider that the realised equity value is limited by the Put Option to R74 per share, compared to a stated value of R77.5-R80 per share in the initial merger. Would this lower the sale price for Lonrho's Implats shareholding by between £18-£31 million?

Is it not correct that the claim of the Bafokeng tribe, (see below) which would lead to the Put Option being exercised, is serious and therefore the execution of the Put Option is a real *possibility?*

Morgan Grenfell

Does the stated *£402 million* value to Lonrho reflect the value established by Lonrho's merchant bank Morgan Grenfell, which advised Lonrho in this merger? *If yes, why does Morgan Grenfell not* support this merger by a full recommendation to Lonrho's shareholders in Lonrho's circular about the merger?

The circular contains a long technical report on the present state of the mines. Despite 'extensive due diligence' enquiries the circular does not contain anything from Morgan Grenfell.

Could Lonrho's shareholders have sight of Morgan Grenfell's advice and recommendation, and be told the value it has established from Lonrho's Platinum Division?

Costs

Is it correct to assume that the legal, technical and merchant banking costs are still to be deducted from the stated benefit to Lonrho's shareholders?

DOES THE BAFOKENG TRIBE'S CLAIM PERMANENTLY LIMIT THE ESTABLISHED VALUE TO R74 PER SHARE?

Senior Counsel

Did the Board consider the concern (page 44 of the circular) **of the technical consultant over the claim of the Bafokeng tribe, which could lower the value of the Implats group by *a significant amount?***

If yes, who is the senior counsel in Johannesburg who advised Lonrho '.... that the probability is that any such action will fail....'? (page 84 of the circular)

Surely one line cannot accurately represent his entire opinion bearing in mind the likely legal, factual, and constitutional complexity of the claim.

Did he qualify his opinion in any way or offer specific advice to the Board?

Will Lonrho shareholders be able to see the written comment of the senior counsel or at least a précis of it, and if not, why not?

7% equity to the tribe

Is the Board of Lonrho aware that Implats offered the Bafokeng tribe the right to subscribe for 7% of the equity of the Impala Group during the years 1990-1994, as stated in the annual reports of Implats from 1990- 1994?

Did the Board of Lonrho and merchant bank Morgan Grenfell consider this factor and how would the possible concession of these rights or any other financial claim by the tribe affect the value of Lonrho's equity stake in this merger?

Net value

As outlined in an article by South African Business Day, dated 14th November 1995, the claim of the Bafokeng tribe seems to have substance.

Why does the Board of Lonrho enter into a merger of its major asset *where the probability of a claim against the* merger partner, *whether* successful or not, is high and imminent?

Would Lonrho then only be able to realize a maximum net value of around **£330 million** for it's Lonrho Platinum Division, whereas Lonrho's chief executive earlier this year helped analysts of the City to establish a value *for Lonrho's 72.59% interest in LPD in the range of £450-500 million?*

The **maximum price of R74 per share** as a result of an execution of the option would enable Gencor to take over LPD for a far lower price than they would have to pay as a direct offer.

Advice

Has the Board of Lonrho approached the legal advisers of the Bafokeng tribe in order to assess the position of their claims, before entering into this agreement?

Is it correct that the Bafokeng tribe claim, which affects most of the *mining rights of Impala, is fully prepared and ready to* be issued?

Why is the Board not waiting for the outcome before merging the mines?

WHAT ARE THE BENEFITS AND THE SYNERGIES OF THE MERGER?

What the Board says

The following is an extract from page 5 of the circular:

'.... believes that the mergers will provide the following benefits to Lonrho shareholders:

– it will allow more rapid and extensive development of LPD's assets. The development of LPD's operations has been constrained for some time by high levels of borrowing; the Enlarged Implats will have low borrowing;

– it will produce a number of operational improvements arising, in particular, from the sharing of mining and processing techniques. In the short term, however, mining synergies are likely to be balanced broadly by *the costs of achieving them. In the medium* and *longer term, the* Directors believe that there will be substantive benefits for Implats shareholders, including Lonrho.'

Capital Expenditure

Is it correct (page 24) that the platinum production 'with minimal capital expenditure, the platinum output of LPD can be increased rapidly to a level of some 600,000 oz from the 1995 achieved level of some 550,000 oz', and that the proposed increase in platinum production to 770,000 oz per annum by the year 2001 will be achieved with a planned capital expenditure of additional R163 million over the next years, which means an improvement of 220,000 oz per annum from the 1995 achieved level of some 550,000 oz?

Efficiency

Is it equally correct that Implats would achieve an improvement of nearly the same size (240,000 oz/per annum) with a capital expenditure program of R427 million, only over the next 3 years?

2½ times the costs

Where is the capital expenditure benefit to LPD if Implats, expansion program for the same increase in production costs 2½ times more than that of LPD and the planned capital expenditure program of LPD could be financed by the cash flow at present without the need for further capital?

Synergies?

Production costs 20% lower at LPD

Based upon the annual reports from Implats, it is obvious that the production cost in R/kg of platinum group metals "pgm" from the smelter ***has risen from 19,000 in 1991 to 27,000 in 1995*** (page 31), whereas the **production cost at LPD has not risen from 1991 to 1995 and is at about 21,589** R/kg of pgm in 1995 (page 16).

LPD's production costs are 20% lower than those of Implats.

Operating costs 22% lower

The planned operating cost per oz at LPD for the year 2000 are projected to be **666 R per oz** whereas at Implats they are projected to be **811 R per oz**, which is **a cost difference of 22% in favour of LPD.**

Since 1978 LPD has steadily increased output in each and every year, whereas Implats records volatile production levels with 1995 lower than most recent years. (page 31).

On page 12 of the circular the technical *consultant* says: 'Upon completion of the merger a team will be constituted to review the synergistic *opportunities available to the merged quantity* and to make proposals to the board regarding the means by which they can be realised.'

Can it be that the Board of Lonrho has not assessed the potential synergies of merging 'the lowest cost primary underground producer' *LPD with the high cost producer Implats* before proposing the merger to Lonrho shareholders?

Reserves

The technical report states on page 23:

"Lonrho Platinum Division has substantial shallow reserves."

In fixing the price for LPD, did the Board of Lonrho and the merchant bank Morgan Grenfell reflect the significant added value of these reserves, which can be extracted at the lowest cost in the industry?

If yes, what is the value given to these reserves by *Morgan Grenfell*, the company's merchant bank?

1995 accounts

Why does the Board not make the 1995 figures of LPD available to Lonrho shareholders in order to enable them to compare LPD's figures with those of Implats for 1995?

Other offers

Did the Board consider a potential bid from the major platinum producer **Anglo/Rustenburg and did Lonrho's merchant bank Morgan Grenfell approach them in order to establish the highest possible value for Lonrho's 72.59% stake in the Lonrho Platinum Division? If not, why not?**

The technical consultant notes that LPD's expansion programmes are highly capital *efficient. Lonrho is certainly not under financial pressure.*

Until eight months ago all Lonrho directors with relevant experience and the entire South African management were opposed to a Gencor merger.

What rationale is there for giving up Lonrho's best stand-alone asset for **a price which, after all the deductions and risks are considered, appears to be no more than £300-£350 million?**

SUFFICIENT INFORMATION

Fairness

Why has the Board of Lonrho refused to give enquiring shareholders *copies of the relevant published documents, thus depriving them of the* opportunity to properly evaluate the effect of the transaction on the Company?

How can shareholders evaluate the transaction if the only way that they can **inspect the 2,000 or so A4 sheets of published documents is by poring over them in the company solicitors' offices during the *8* working days *that* remain before the EGM?**

Clear view

What inconsistencies or drawbacks would* be *clear from these documents if **shareholders' professional advisers had a proper opportunity to review them?**

A proper and open evaluation before the EGM will help us all to get this vital deal right.

Response: If you share the concerns expressed in this advertisement contact Lonrho's company secretary and attend the EGM on 30th November.

ASK YOUR ADVISERS TO EVALUATE THE DEAL CAREFULLY AND ACT ON THEIR ADVICE

LEGAL NOTICES

No. 006469 of 1995

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

IN THE MATTER OF
UNISTAT GROUP PLC
-and-
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 8th November 1995 confirming the reduction of the share premium account of the above named company by £990,327 was registered by the Registrar of Companies on 13th November 1995.

Dated this 21st day of November 1995

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
LONDON EC2A 2HA
Tel: 0171 638 1111
Ref: SAW
Solicitors of the said Company

INTERNATIONAL PEOPLE

Paalman quits after KNP BT 'difference'

Bert Paalman has resigned as a member of ths executive board of Dutch paper and packaging group KNP BT, following the publication of disappointing third-quarter results caused primarily by setbacks in the packaging division. Paalman, who was responsible for the packaging sector, has yet to be replaced, but his tasks will be temporarily assigned to Frank de Wit, deputy chairman of the six-member executive board.

KNP BT said Paalman's resignation was caused by a "difference of opinion" on the course of action to be taken in packaging. A spokesman said the dispute was about basic principles of policy, and not about operational details, but he declined to elaborate. The disagreement is believed to centre on how to bolster tha sector's performance in the short term.

The group, formed in 1993, recently reported a 40 per cent drop in third-quarter operating profits in packaging to Fl 39m. The decline, far larger than analysts' predictions, was caused in part because KNP BT had to write down the value of large stocks of waste paper – a raw material for packaging. *Ronald van de Krol*

Nikko picks Saudi

Japan's Nikko Securities hss turned to a former senior official of the Saudi Arabian Monetary Agency for advice on the Middle East. Ahmed Abdullah Al Malik, 58 (left), who stepped down as SAMA's vice governor in July, has been hired as a senior adviser to the president and executive board of Nikko Securities. Al Malik, who joined SAMA in 1980, after a career in Saudi Arabia's Ministry of Defence, will provide Nikko with strategic analysis and advice on political and economic developments in the Middle East, particularly those affecting Saudi Arabia.

Coleman bows out

Lew Coleman, who missed out on the top job at BankAmerica Corporation, is quitting the West Coast banking giant at the end of the month. Mike O'Neill, 49, who joined BankAmerica following its acquisition of Chicago's Continental Bank last year, takes over Coleman's role as chief financial officer.

Coleman's departure was not unexpected since he lost the race to succeed Richard Rosenberg, BankAmerica's chairman and chief executive. The two had previously worked together at Wells Fargo and Coleman was part of the team that restored BankAmerica's fortunes following its near collapse in the 1980s. However, BankAmerica decided in August to pick David Coulter, head of corporate banking, to succeed Rosenberg.

O'Neil joined Continental Bank in 1974. He left ten years later to work in London as an independent workout specialist on shipping loans. He rejoined Continental in 1989 and became chief financial officer in 1992. He currently heads BankAmerica's global equity investments unit.

Bloomberg signs up

Michael Bloomberg, the wealthy founder of Bloomberg financial news service, is getting ready to take on the chairmanship of the board of trustees of The John Hopkins University, his old alma mater.

Bloomberg has decided to step down from the board of TIG Holdings, an insurance company spun off from Transamerica Corporation. He joined the board less than two years ago but says that increasing demands placed upon him by his business and his expected responsibilities at John Hopkins mean he can not afford to devote the time and attention he feels necessary to serve on the TIG board. Last month Bloomberg, 53, who studied engineering and physics at John Hopkins, donated $55m to his old university. It is believed to be the largest private donation to any university.

Bankers Trust move

Bankers Trust, one of the world's biggest fund managers, does not like to run with the herd. It has decided to integrate its $195bn investment management activities around the globe under Ian Martin, a 46-year-old Australian, based in Sydney.

*Martin, head of Bankers Trust Aus*tralia Limited's fund management business, is a former Australian Treasury economist. He joined BTAL as chief economist in 1985 and has been responsible for turning it in to one of Australia's most successful fund managers. However, with funds under management of $20bn it is overshadowed by the $168bn managed by BT's New York operation.

Martin, who will continue to manage BT's Australian fund management business, will now oversee the "strategic development" of BT's worldwide investment business. Ivan Wheen, who has headed BT's New York investment management operation, is moving to a new post in Singapore developing BT's Asian business strategy.

Ford's Ross retires

Louis Ross (laft), Ford's vice chairman and chief technical officer, is to retire at the end of the year. Ross, a director since 1985, joined Ford 40 years ago as a research engineer. He became vice president of Ford Brazil in 1973, and two years later returned to the US to a succession of increasingly aenior haadquarters roles.

If Ross's seat on the 15-member board is filled, it will most likely be by an outsider – leaving Ford's chairman, Alex Trotman, and Ford Motor Credit Co president, Edsel Ford II, as the only executive members.

At one stage, Ross had been considered a candidate in s three-way race for the Ford chairmanship, along with Allan Gilmour and Trotman. Gilmour retired at the end of 1994.

ON THE MOVE

■ Yuzo Matsushito (left) has been named managing director of NKK EUROPE, based at the Japanese steel company's European headquarters in London. Matsushito joined NKK in 1966, and since 1993 has been a member of the group re-planning company's steel operations.

■ Australian specialty fashion retailer COUNTRY ROAD has appointed Michael Warner chief executive to run its US operation, which lost A$3.5m (US$2.6m) in the year to July 30.

■ Roman Gozalo, 50, has been named chief administration officer for Elf Aquitaine, replacing Phillipe Jacques. Patrick Timbart, 45, inherits his previous post as managing director of Elf Exploration Angola, and Maurice Comtet, 51, has been named director of human resources for Elf Exploration Production.

■ David Stevens has been appointed vice president, exploration at NORANDA MINING AND EXPLORATION. He was until recently senior vice president of exploration at Independence Mining, a division of Minorco.

■ Pierre Habib-Deloncle replaces Jean Matouk as chairman of France's SOCIETE MARSEILLAISE DE CREDIT, with a brief to oversee its privatisation.

■ Rick Mina, 38, has been named managing director of FOOT LOCKER EUROPE, with responsibility for Woolworth Corporation's 218 Foot Locker stores in Europe. Michael Connell becomes director of merchandise operations.

■ Edmund Wong, 37 (left), becomes senior vice president of UNITED OVERSEAS BANK, Singapore's largest financial institution, heading a new strategic investment division.

■ Bruce Bastian has resigned from the board of NOVELL, the networking software company. He had joined the board as a result of the 1994 acquisition of WordPerfect Corporation, which he founded with Alan Ashton in 1979.

■ David Hannah, 44, chief financial officer of RELIANCE STEEL & ALUMINIUM since 1992, rises to president and Gregg Mollins, 40, to executive vice president and chief operating officer. Steven Weis, 53, previously chief financial officer of Rubbercraft Corporation, becomes chief financial officer.

■ Dennis Oates, president and chief operating officer of LUKENS STEEL of the US, is leaving the company to consider other business oportunities. The announcement came as parent Lukens Inc., revealed plans to integrate its Lukens Steel and Washington Steel business units.

■ Timo Korvenpaa has been named head of finance at NOKIA OY of Finland.

■ Norbert Kaesbeck, a COMMERZBANK veteran since 1970, becomes a deputy member of the board on January 1.

■ Jean-Claude Fontaine, 40, a Belgian, is the new director general of EURATEX, the European Apparel and Textile Organisation. He replaces Camille Blum, who becomes secretary general of the European Automobile Manufacturers Association (ACEA).

■ Jonathan Ornstein is to resign as ceo of CONTINENTAL EXPRESS, a wholly owned subsidiary of Continental Airlines of the US.

■ *Richard Roy has joined IBEX* TECHNOLOGIES, the Canadian biopharmaceutical company, from Bell Canada International, as chief financial officer

■ Thomas Peck has been appointed as national sales manager, Wirehouse Firms, by AMERICAN SKANDIA LIFE ASSURANCE. He joined Skandia in 1994 after working for Massachusetts Financial Services.

■ Martin Wagner is to head the US GENERAL SERVICES ADMINISTRATION's new office of governmentwide planning, policy and leadership.

■ NPC, the British logistics and moving services company, has made Robert Lake (left) its first chief executive in North America. For the last six years, Lake has been president of Roadway Logistics Systems, Inc.

■ Leo Melamed, chairman emeritus of the Chicago Mercantile Exchange (CME) and inventor of financial futures, has been elected to the board of directors of the CATALYST INSTITUTE, a Chicago think tank.

■ George Lippe becomes president and chief executive of TRAMMELL CROW, the privately-held US property company, from January 1. He succeeds James Carreker, who becomes vice chairman and retains his role as president and chief executive of Wyndham Hotels & Resorts.

■ Graham Robertson (left) has been named managing director of TETLEY AUSTRALIA. He joins from Griffith Laboratories Worldwide, where he was managing director for Australia.

■ Helmut Jost, 42, joins IBM as director of its personal computer division in Germany, replacing Hermann Caffier who is leaving the company.

■ William Nix becomes treasurer of AGCO CORPORATION, the agricultural equipment manufacturer. He was previously director of corporate finance at Caraustar Industries.

■ John Lundgren, 44, rises to president of JAMES RIVER CORPORATION's European consumer products business. Lundgren, who joined the group in 1982, was most recently responsible for *European strategic planning*, marketing, purchasing and logistics.

■ Fabrizio Rindi is to be head of Italian business at Swiss insurer WINTERTHUR.

■ Hans Hoeveler, 49, becomes management board chairman at Westdeutsche Landesbank's subsidiary, DEUTSCHE INDUSTRIE- UND HANDELSBANK of Berlin. He succeeds Dirk Koerner, 53, who has transferred to New York.

■ Rebecca Sharp, 46, general merchandise manager at Texas-based Neiman Marcus, has been appointed group merchandising director of House of Fraser, the UK department store group.

■ BANK OF AMERICA has hired Mark Nuttall from the Bank of England's foreign exchange division, to boost its central bank sales team. Nuttall, who joins on January 2, will work closely with similar teams in New York, Singapore and Tokyo.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

COMMODITIES AND AGRICULTURE

Opec ceiling feels the strain

By Robert Corzine in Jeddah

The Organisation of Petroleum Exporting Countries meets in Vienna today to decide whether to change its present production ceiling of 24.52m barrels a day. The ceiling, which has been in effect since September 1993, is being undermined by over-production from a number of Opec countries, including Venezuela, Qatar, Nigeria, and Gabon.

Saudi Arabia and Kuwait, two big producers that have kept within their quotas, are expected to put pressure on the persistent violators. But there has been speculation among some Opec delegates as to whether the oil ministers of Venezuela and Nigeria in particular are in effective charge of the oil policy in their respective countries.

One Opec delegate said the oil policy of the two countries had been hijacked by higher authorities. The Venezuelan finance ministry had increasing influence over the state oil company, the delegate said, and General Sani Abacha, Nigeria's military ruler, was dominant in setting that country's oil output levels.

Opec over-production in response to relatively firm oil prices is a perennial problem for the organisation, and one that has so far defied solution. "There is somebody always trying to cheat," said a delegate.

Some industry analysts put current Opec output at about 1m b/d over the ceiling. Estimates at the lower end of the range place it near 600,000 b/d.

The issue of over-production has been complicated by growing output from oil producers outside the organisation. Countries such as Norway and the UK have captured the bulk of the growth in oil demand this year and threaten to do so again in 1996.

Analysts say a cut in the Opec ceiling would boost prices, which in the third quarter of the year averaged $16.34 a barrel for the benchmark Brent Blend. But previous attempts to reduce the ceiling have proved politically impossible.

In addition Saudi Arabia, the world's largest oil exporter and the dominant Opec member, appears determined to maintain present production of 8m b/d, according to diplomats and industry observers in the kingdom.

Many western analysts say Opec should simply accept that it will have to wait until 1997 or so before it can capture a significant share of oil demand growth. They argue that a roll-over of the present ceiling, the outcome which most oil analysts and traders expect from this week's meeting, is the best way to stabilise prices.

Some Gulf Opec states say a roll-over does not necessarily have to mean abandoning hopes of a higher oil price next year. They argue that non-Opec output from the North Sea in 1996 may not be as large as predicted. They also cite current low stock levels in the run-up to the northern hemisphere winter as a factor which could underpin short term prices.

Some Opec officials say the relative tightness of the international market means that any adherence to the present ceiling could add $1 to $2 to the current price.

The international oil industry will also be looking for signs of any move by Opec to claw back market share by loosening quotas and flooding the market.

Such a move is the subject of much debate within Opec countries. But it would depend on the agreement of Saudi Arabia, Kuwait and the United Arab Emirates, the three Opec states with excess capacity.

But analysts say any attempt to drive more expensive non-Opec oil from the market would raise broad political and strategic issues for the three countries, which rely on the US and the UK, both of which are producers of relatively expensive oil, to help underpin their security.

UK meat industry split over 'mad cow disease' costs

By Alison Maitland

The usually tight ranks of the UK meat industry have been split apart by a bitter row over charges for disposing of cattle organs that may be infected with "mad cow disease".

Abattoirs, many of which are suffering from the industry's overcapacity, have asked livestock auctioneers to pass on part of the extra costs of disposal to farmers.

Auctioneers, backed by the National Farmers' Union, have refused, saying they have no mandate. Many abattoirs have responded by boycotting livestock markets, costing auctioneers hundreds of thousands of pounds in lost revenue.

The government tightened up the disposal regulations in August. The skull must now be destroyed along with the brain and eyes and other remains such as the spine, spleen and intestines. Previously the skull went into the meat and bonemeal rendering process. As renderers' disposal charges are fixed by weight, the new requirement has pushed up abattoirs' costs. The offals must also be stained to distinguish them and dealt with separately from other remains.

The extra cost to abattoirs of disposing of this "specified bovine offal", which could carry the bovine spongiform encephalopathy (BSE) disease, is put at £33m a year.

They want farmers to pay £3.50 per animal – half the £7 they say the new rules are costing them. The Federation of Fresh Meat Wholesalers, which represents slaughterhouses, is pressing the farmers' union to arrange a joint industry meeting with Mr Douglas Hogg, the agriculture minister, to discuss the impasse.

But Mr Ben Gill, the union's deputy president, yesterday refused to seek such a meeting "while I've got a gun pointing at my head".

He accused the abattoir industry of using the new rules "as a smokescreen" for its overcapacity problems. He said it should cover its extra costs by lowering prices to farmers or charging more to meat processors. A fixed levy was inappropriate to cover a cost that varied between slaughterhouses, he said.

Each side is predicting the other will be forced to give way first. Abattoirs have been buying cattle direct from farmers and Mr Gill said some animals were being delivered to slaughterhouses in the middle of the night to avoid publicity.

"Some abattoirs were running at 20 per cent throughput last week. They can't do that for much longer."

Mr Peter Scott, general secretary of the meat federation, said direct buying could pose a long-term threat to the auctioneers.

Ironically, both sides agree the government should really be footing the bill.

"As it's a notifiable disease, the government ought to be funding the eradication programme," said Mr Scott. "It has dumped it at the door of the meat plants."

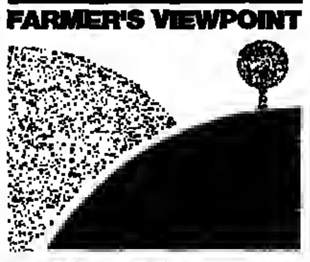
Mr Jim Watson, president of the Livestock Auctioneers Association, said: "The government allowed the renderers to reduce rendering temperatures some years ago which allowed contaminated animal product to get back into the animal feed chain (and cause BSE). The government ought to face up to their responsibilities."

The agriculture ministry seems unlikely to come to the industry's rescue. "These are costs for the industry," it said yesterday. The industry has also been requesting help from the EU's veterinary fund to eradicate the disease, but the 1996 allocation has already been used up, said the ministry.

Output stays on back burner as food stocks shrink

Sustainable expansion of production to meet rising demand need not be damaging to the environment

FARMER'S VIEWPOINT



By David Richardson

A single sheet of A4 paper from the UK Intervention Board arrived on my desk last week – dated November 15. It informed me of the level of surplus food stocks purchased by the board, in line with the Common Agricultural Policy of the EU, currently held in UK stores.

In summary it revealed that the UK stock of bread-making wheat was nil; of barley, just over 8,000 tonnes; of feed wheat, 22 tonnes (a little less than a lorry load); of rye, nil; of butter, not quite 1,300 tonnes; of skimmed milk powder, nil; of bone-in beef, nil; and of boneless beef, a little more than 5,000 tonnes.

Not many mountains and lakes are left in this country, that is clear. But Britain is part of the EU and must, of course, consider its food surpluses alongside 14 other member states. Further enquiries revealed that the situation across Europe is not significantly different.

Although not all figures were quite as up to date as those for the UK (some related to intervention stocks a few weeks or months ago) latest available figures for total EU stocks of cereals, including those in the UK already mentioned, amounted to less than 5.5m tonnes; of dairy produce, 35,000 tonnes; and beef 12,000 tonnes. Even stocks of olive oil, at one time one of the EU's main surplus products, amounted to just 24,000 tonnes and those for wine alcohol to 120m litres.

In other words food surpluses in the EU's public stores are, in most cases, down to or close to bare boards, reflecting the tightness in world supplies of many basic commodities. Moreover, the Food and Agriculture Organisation in Rome said in its October bulletin "the cereal supply/demand outlook for 1995-96 has tightened furtber". . . and. . . "next year's cereal harvest will be crucial for world food security". The report went on to explain that world carryover stocks of cereals were forecast to be only 14-15 per cent of consumption by the end of the 1996 crop year – a drop of 3 to 4 per cent since last year and of 6 to 7 per cent in four years.

The International Grains Council monthly market report dated October 26 reinforced the point; "grain prices continued to strengthen as the supply outlook tightened further", it said. "Some importers, anxious to avoid even higher prices, were regular buyers of wheat at around US$200 per ton (FOB). . . the [European Union] made provision for the possibility of introducing export taxes."

It is only a matter of months since the EU was having to pay export subsidies in order to sell grain on to world markets and was negotiating within the General Agreement on Tariffs and Trade for the right to continue to do so. Now the union seems set to charge taxes on exports to discourage them in order to try to hold down the cost of grain needed for animal feeds by Europe's hard-pressed livestock farmers.

And yet, the Rural White Paper, published last month, together with a number of other recent reports by interested bodies on which it was clearly based, stated that "expanding food production is no longer an overriding imperative". It went on to speak of what it obviously believed to be mistaken policies pursued by the EU "still influenced by memories of post-war food shortages".

The white paper also urged farmers to adopt more sustainable systems and minimise damage to the environment, which it stated must now be top priority. Now I am not the farmer who will say such an objective is nonsense. Indeed I am chairman of an environmental body (LEAF, Linking Environment and Farming) whose aims coincide closely with that government line.

But those shortages of cereals, which, by their keenness to buy forward, traders clearly believe will last for some time, surely dictate that some of the official assumptions on food supplies should be examined more closely.

They have to be assessed alongside forecasts that the population of the world will rise to 8.5bn in the next 30 years; that in the five minutes or so it takes to read this column there will be a net rise in the global family of almost 1,000.

At a domestic UK level, it may not be widely appreciated that overall food self-sufficiency is only about 55 per cent and for those commodities that can be grown in our climate, about 70 per cent. Moreover, according to calculations made by the National Farmers' Union, 93 per cent of all the production of British agriculture goes directly or indirectly for human consumption as food.

Enthusiastic as I am for the environment, I fear the cavalier attitude that the production of food need no longer be a UK farming priority is dangerous.

That is not to say that I believe Britain or western Europe are heading for famine next year. The likelihood is, given current high world prices, that farmers around the world (with the exception of those of us in the EU still subject to 10 per cent set–a–side) will seek, weather permitting, to maximise production over the next two or three years and that this may lead to further modest surpluses by the end of the century.

But population increase and the already obvious inability of world agriculture consistently to expand production as fast as demand must lead to an inexorable long-term trend towards shortage, not surplus.

What is clearly needed, therefore, is a system of farming that is as sustainable as it is possible to be; which cares for the countryside and minimises damage to the environment but maintains production and allows for sustainable expansion as new and developing environmentally responsible technology permits and the inevitable need arises.

I believe that the basis of that system is already with us. It is advocated by LEAF and is called integrated farming. It addresses positively all the points I have mentioned. It had been developed by practical farmers and agricultural specialists. It has been accepted by most environment and food interest groups.

Indeed, there is mounting evidence that the UK government and the EU are coming to similar conclusions. Such bodies should now publicly adopt, promote and support it as the safe, economic and acceptable policy for food and farming.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1642-43	1680-80.5
Previous	1637.5-38.5	1674-75
High/low	1648/1631	1683/1668
AM Official	1636-36.5	1670.5-71.5
Kerb close		1682-83
Open int.	221,626	
Total daily turnover	34,950	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1355-65	1395-405
Previous	1370-80	1410-20
High/low	1370/1355	1410/1395
AM Official	1355-56.0	1390-410
Kerb close		1410-20
Open int.	3,812	
Total daily turnover	980	

■ LEAD ($ per tonne)

Close	728-30	707-8
Previous	722-24	704-5
High/low	723	707/700
AM Official	722-23	702-2.5
Kerb close		706-7
Open int.	31,913	
Total daily turnover	5,006	

■ NICKEL ($ per tonne)

Close	8475-85	8585-600
Previous	8375-85	8490-500
High/low	8410/8400	8640/8425
AM Official	8410-20	8510-20
Kerb close		8630-40
Open int.	42,877	
Total daily turnover	9,234	

■ TIN ($ per tonne)

Close	6385-95	6415-25
Previous	6370-80	6410-20
High/low	6380/6365	6450/6395
AM Official	6370-75	6405-10
Kerb close		6415-20
Open int.	16,945	
Total daily turnover	3,820	

■ ZINC, special high grade ($ per tonne)

Close	1033-34	1057-58
Previous	1026.5-7.5	1048-49
High/low	1025	1056/1047
AM Official	1024.5-5.5	1048-48.5
Kerb close		1054.5-55.5
Open int.	63,197	
Total daily turnover	32,332	

■ COPPER, grade A ($ per tonne)

Close	3003-5	2768-9
Previous	2990-95	2745-47
High/low	3005/3000	2770/2743
AM Official	2988-3000	2748-50
Kerb close		2764-5
Open int.	174,885	
Total daily turnover	57,255	

■ LME AM Official £/$ rate: 1.5445
LME Closing £/$ rate: 1.5480

Spot: 1.5495 3 mths: 1.5464 6 mths: 1.5432 9 mths: 1.5395

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	140.30	+2.00	140.70	138.30	153	1,422
Dec	133.15	+1.65	133.70	131.50	3,083	16,829
Jan	129.15	+1.35	129.90	128.50	69	1,147
Feb	126.85	+1.30	-	-	83	633
Mar	124.90	+1.25	125.50	124.00	1,432	9,843
Apr	123.10	+1.10	-	-	101	303
Total					5,138	38,373

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	386.20-386.60		
Opening	386.50-386.90		
Morning fix	386.55	250.129	441.827
Afternoon fix	386.30	249.851	440.923
Day's High	386.50-386.90		
Day's Low	386.10-386.50		
Previous close	386.30-386.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.43	6 months	3.03
2 months	2.43	12 months	3.24
3 months	2.47		

Silver Fix	p/troy oz.	US cts equiv.
Spot	346.45	535.25
3 months	351.05	541.25
6 months	355.55	547.00
1 year	365.20	559.75

Gold Coins	$ price	£ equiv.
Krugerrand	386-387	250-251
Maple Leaf	397.05-399.55	
New Sovereign	90-92	58-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	386.6	-0.4	-	-	-	-
Dec	387.1	-0.4	387.5	386.5	18,167	56,703
Feb	388.7	-0.4	389.0	388.0	6,768	29,444
Apr	390.9	-0.4	391.0	390.8	77	8,556
Jun	393.2	-0.4	393.4	393.0	981	18,404
Aug	395.5	-0.4	-	-	503	3,615
Total					26,252	166,882

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	417.0	-0.3	417.3	414.5	689	16,529
Apr	416.7	-0.1	417.0	414.0	90	2,436
Jul	417.3	-	-	-	4	1,654
Oct	418.0	+0.2	417.0	417.0	103	537
Jan	419.0	+0.2	-	-	1	5
Total					886	21,171

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	136.05	+0.30	136.25	134.50	938	3,431
Mar	136.75	+0.25	137.00	136.00	755	3,276
Jun	137.75	-0.10	-	-	1	128
Total					1,694	6,936

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Nov	533.0	-0.8	-	-	60	87
Dec	533.7	-1.0	534.5	532.5	5,679	44,371
Jan	535.3	-1.0	-	-	1	33
Mar	541.3	-0.9	542.0	540.0	1,457	27,349
May	545.4	-0.8	544.5	544.0	11	8,780
Jul	549.5	-0.7	550.0	548.0	53	6,196
Total					11,497	102,938

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.01	-0.12	18.15	17.89	82,288	108,298
Feb	17.79	-0.09	17.90	17.77	32,060	44,139
Mar	17.65	-0.05	17.72	17.63	15,034	24,482
Apr	17.53	-0.04	17.58	17.48	3,981	12,983
May	17.39	-0.07	17.45	17.36	2,542	10,025
Jun	17.30	-0.06	17.36	17.27	0,833	19,146
Total					212,325	340,836

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	16.81	-0.12	16.89	16.81	10,921	67,362
Feb	16.59	-0.08	16.65	16.59	3,868	20,439
Mar	16.41	-0.06	16.46	16.41	1,597	15,318
Apr	16.29	-0.01	16.29	16.26	391	8,365
May	16.16	-0.02	16.17	16.15	244	2,443
Jun	16.06	-0.01	16.06	16.06	00	8,150
Total					16,802	148,308

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	52.70	-0.30	52.95	52.60	18,386	32,369
Jan	52.85	-0.35	53.20	52.80	17,882	46,474
Feb	52.30	-0.10	52.60	52.25	8,100	25,684
Mar	50.85	-0.25	51.05	50.80	2,292	10,740
Apr	48.95	-0.30	49.10	48.80	527	4,931
May	47.85	-0.40	48.20	47.65	38	4,009
Total					47,282	144,854

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	158.50	+1.00	158.75	157.25	9,384	24,796
Jan	157.25	-0.75	157.50	156.50	7,360	22,984
Feb	155.75	+0.50	155.75	155.00	707	7,329
Mar	153.75	+0.50	154.00	153.25	849	4,998
Apr	152.00	+0.50	152.00	151.50	259	2,314
May	150.25	-	150.75	150.25	44	1,139
Total					19,811	22,732

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	2.083	+0.059	2.099	2.050	38,789	25,859
Jan	2.065	+0.020	2.073	2.021	24,169	37,385
Feb	1.939	+0.003	1.955	1.910	7,993	18,383
Mar	1.820	-	1.830	1.806	4,685	13,741
Apr	1.707	+0.007	1.710	1.698	2,030	9,082
May	1.710	+0.005	1.712	1.704	1,130	7,429
Total					79,209	195,073

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	53.00	+0.21	53.29	52.50	16,531	16,611
Jan	51.85	-0.06	52.10	51.65	10,478	20,000
Feb	51.85	-0.18	52.10	51.80	5,497	11,317
Mar	52.00	-0.18	52.35	51.80	2,748	4,339
Apr	54.45	-0.08	54.50	54.45	738	3,828
May	54.50	+0.02	54.50	54.45	1,128	2,829
Total					38,310	62,749

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	127.25	+0.25	127.00	127.00	3	62
Jan	128.30	-0.05	128.10	127.85	128	2,275
Mar	130.30	-	130.30	129.80	151	2,427
May	132.30	-	132.30	131.80	264	2,976
Jul	134.30	-0.10	134.25	134.00	15	208
Sep	115.00	-	115.00	115.00	13	46
Total					831	8,536

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	496.00	+3.50	498.50	492.50	8,663	26,068
Mar	492.50	+0.50	496.50	481.50	7,364	48,714
May	453.75	-2.25	459.00	455.50	416	4,526
Jul	412.50	-3.25	417.00	411.50	1,529	18,982
Sep	414.00	-4.00	418.00	414.00	226	3,099
Dec	423.50	-2.75	429.00	423.50	73	1,099
Total					18,272	108,486

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	328.50	-1.50	328.75	325.75	25,581	108,898
Mar	333.00	-2.25	335.75	332.50	36,696	252,589
May	333.50	-2.50	336.50	333.00	6,580	42,428
Jul	329.50	-2.75	332.75	329.00	4,943	54,733
Sep	293.00	-	293.50	291.25	453	9,592
Dec	279.25	-	280.00	277.50	1,778	25,858
Total					76,138	495,884

■ BARLEY LCE (£ per tonne)

Nov	117.00	-	-	-	-	45
Jan	119.25	+0.50	119.25	118.75	18	901
Mar	121.25	+0.35	120.50	120.50	2	754
May	123.25	-	123.25	122.60	5	242
Sep	112.25	+1.00	112.25	112.25	-	1
Nov	113.00	-	-	-	-	5
Total					31	1,948

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	682.00	+0.50	683.50	679.50	1,471	1,089
Jan	679.50	-7.50	688.50	679.00	22,159	81,986
Mar	688.25	-6.75	696.75	687.50	4,921	39,825
May	692.50	-6.25	700.25	691.75	1,158	13,195
Jul	693.00	-7.25	702.00	692.50	1,147	18,315
Aug	688.50	-6.50	696.50	688.50	23	986
Total					31,882	170,512

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	25.18	-0.33	25.68	25.15	4,077	22,485
Jan	25.38	-0.29	25.84	25.36	5,976	29,223
Mar	25.69	-0.28	26.12	25.66	3,118	17,469
May	25.99	-0.26	26.32	26.00	1,511	8,667
Jul	26.15	-0.22	26.42	26.15	972	7,958
Aug	26.25	-0.10	26.30	26.25	480	1,486
Total					18,521	89,530

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	209.1	-2.1	212.5	208.5	9,072	29,168
Jan	210.8	-2.3	214.0	209.8	0,179	27,884
Mar	212.9	-2	215.9	212.1	4,066	25,209
May	212.7	-2.1	215.5	211.8	911	7,693
Jul	213.5	-1.3	215.8	212.5	880	9,396
Aug	211.5	-1.5	214.2	211.0	34	986
Total					23,369	102,809

■ POTATOES LCE (£/tonne)

Mar	270.0	-	-	-	-	-
Apr	258.8	-7.7	261.0	255.0	27	1,100
May	305.0	-	-	-	-	5
Jun	325.0	-	-	-	-	-
Total					27	1,198

■ FREIGHT (BIFFEX) LCE ($10/index point)

Nov	1780	-15	1790	1750	39	596
Dec	1620	-70	1680	1510	58	223
Jan	1550	-70	1620	1530	189	1,246
Apr	1520	-70	1605	1500	151	1,340
Jul	1360	-53	1400	1335	55	418
Oct	1470	-40	1480	1480	5	83
Total					505	3,937

	Close	Prev
BFI	1782	1748

FUTURES DATA
All futures data supplied by CMS.

Tea
There was good demand this week reports the Tea Broker's Association. The few better liquoring Assams on offer sold well at around last levels but others lost 2/5p following quality. Africans were a strong feature with brightest Burundi teas showing further gains while medium Kenyas and plainer Central Africans advanced 2/4 pence. Offshore bright Ceylons met keen competition at dearer rates while Africans were about firm. Quotations: best available: 180-240p/kg, good: 135-160p/kg, good medium: 118-132p/kg, medium: 80-115p/kg, low 78-89p/kg. Highest price realised this week was a 240p/kg for a Burundi pd.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	935	-	940	934	1,613	11,566
Mar	972	-	979	971	2,469	36,397
May	988	-1	995	988	186	14,909
Jul	1005	-3	1013	1004	744	5,262
Sep	1028	-	1029	1024	155	26,397
Dec	1036	-1	1043	1036	63	6,416
Total					5,529	118,929

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1365	-	1375	1358	356	2,540
Mar	1371	-4	1383	1369	4,312	42,929
May	1392	-2	1400	1390	1,142	10,168
Jul	1411	-2	1420	1415	175	3,533
Sep	1434	-2	1442	1438	87	9,418
Dec	1458	-2	1460	1460	53	7,125
Total					6,294	76,951

■ COCOA (ICCO) (SDR's/tonne)

Nov 17	Price	Prev. day
Daily	975.35	980.46

■ COFFEE LCE ($/tonne)

Nov	2452	-26	2499	2450	107	1,324
Jan	2247	-59	2300	2245	3,236	14,785
Mar	2155	-64	2207	2152	806	7,714
May	2082	-62	2135	2090	252	3,971
Jul	2020	-57	2069	2030	133	1,121
Sep	1983	-52	1990	1990	53	370
Total					4,647	29,295

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	117.80	-2.55	121.50	117.10	5,636	3,087
Mar	115.20	-4.45	120.00	114.50	4,693	13,910
May	113.20	-4.45	117.50	113.00	389	3,036
Jul	112.25	-4.45	115.00	111.75	51	696
Sep	111.05	-4.45	112.50	111.25	4	319
Dec	110.05	-4.45	-	-	-	247
Total					10,779	21,478

■ COFFEE (ICO) (US cents/pound)

Nov 17	Price	Prev. day
Comp. daily	119.18	119.17
15 day average	120.85	120.97

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jan	13.25	-	-	-	-	-
Mar	10.00	-	-	-	-	-
May	10.85	-	-	-	-	-
Jul	10.85	-0.13	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

Mar	352.2	+8.0	352.5	345.5	598	14,704
May	341.8	+7.0	340.5	334.8	374	5,535
Aug	332.7	+6.9	333.0	325.4	356	3,637
Oct	301.7	+5.5	302.0	298.2	331	2,727
Dec	292.2	+4.5	291.1	290.5	87	1,431
Mar	290.7	+4.9	288.6	285.8	44	243
Total					1,860	28,288

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	10.69	+0.05	10.90	10.78	6,264	78,460
May	10.72	+0.05	10.72	10.62	2,241	21,142
Jul	10.33	-	10.35	10.29	636	13,812
Oct	10.22	+0.02	10.24	10.16	1,252	18,134
Mar	10.11	+0.02	10.07	10.04	133	9,838
May	10.01	+0.02	10.01	10.00	238	1,165
Total					10,802	148,674

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	86.38	-0.42	86.70	86.00	3,097	8,069
Mar	83.53	+0.23	85.70	84.92	5,110	22,182
May	85.30	+0.35	85.39	84.80	683	8,802
Jul	84.90	+0.40	84.80	84.20	238	6,562
Oct	79.86	-0.12	79.90	79.75	31	1,428
Dec	77.03	+0.01	77.10	76.75	179	7,736
Total					9,305	55,886

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	124.70	+0.10	125.30	123.90	905	16,206
Mar	127.50	+0.10	127.80	126.50	398	5,037
May	129.90	-0.15	130.70	129.60	19	1,590
Jul	132.10	+0.10	-	-	63	706
Sep	134.50	+0.25	-	-	6	579
Nov	133.95	-	133.50	133.00	1	220
Total					1,361	26,657

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Nov 18	Nov 17	month ago	year ago
2189.4	2183.7	2091.9	2159.8

■ CRB Futures (Base: 1967=100)

Nov 17	Nov 16	month ago	year ago
243.81	242.77	-	-

■ GSCI Spot (Base: 1970=100)

Nov 17	Nov 16	month ago	year ago
187.96	188.08	180.63	176.71

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	68.575	-0.100	68.975	68.500	3,587	27,080
Feb	68.175	+0.575	68.375	68.000	2,531	20,945
Apr	67.650	+0.375	67.900	67.500	1,502	12,882
Jun	63.725	+0.175	63.950	63.700	452	5,882
Aug	61.900	+0.075	62.100	61.900	188	2,276
Oct	62.775	+0.075	62.950	62.775	206	2,222
Total					8,526	71,538

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	44.025	-0.050	44.325	43.800	1,434	8,158
Feb	46.675	-0.450	47.050	46.550	1,446	10,284
Apr	47.150	-0.250	47.450	47.000	473	4,189
Jun	52.650	-0.250	52.900	52.550	264	3,938
Jul	52.650	-0.100	52.750	52.450	42	2,175
Aug	51.750	+0.150	51.750	51.400	14	1,073
Total					3,685	31,456

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	56.425	-0.200	57.175	56.125	840	5,104
Mar	56.550	-0.175	57.400	56.200	45	711
May	57.550	-0.250	58.400	57.500	18	398
Jul	59.175	+0.350	59.200	58.250	21	492
Aug	56.500	+0.550	56.500	56.300	4	133
Total					926	6,838

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Feb	Dec	Feb
1600	63	113	6	31
1700	10	58	53	75
1800	-	25	143	141
■ COPPER (Grade A) LME	Dec	Feb	Dec	Feb
2800	109	76	11	114
2900	44	42	46	179
3000	12	-	114	-
■ COFFEE LCE	Jan	Mar	Jan	Mar
1900	351	304	4	49
1950	304	268	7	63
3000	260	235	13	80
■ COCOA LCE	Mar	May	Mar	May
875	105	126	8	13
900	85	107	13	19
925	66	89	21	26
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
1550	135	122	2	10
1600	87	81	7	22
1650	54	50	17	40

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan) +or-

Dubai	$15.75-5.80w	-0.095
Brent Blend (dated)	$16.77-6.81	-0.240
Brent Blend (Jan)	$16.81-6.83	-0.080
W.T.I. (1pm est)	$18.03-8.05w	-0.095

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$190-191	-1
Gas Oil	$162-163	+2
Heavy Fuel Oil	$87-89	+1.5
Naphtha	$149-151	+0.5
Jet fuel	$182-184	+2
Diesel	$165-166	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$386.40	-0.10
Silver (per troy oz)♣	535.5c	+1.0
Platinum (per troy oz.)	$414.35	-0.15
Palladium (per troy oz.)	$133.75	-0.25
Copper	125.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.99m	+0.30
Tin (New York)	303.5c	-1.0
Cattle (live weight)†	124.32p	-4.13*
Sheep (live weight)†♣	111.18p	+0.58*
Pigs (live weight)†	99.13p	-2.14*
Lon. day sugar (raw)	$303.3	-2.0
Lon. day sugar (wte)	$388.5	+1.0
Barley (Eng. feed)	£126.0	
Maize (US No3 Yellow)	£105.5w	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	110.50p	+2.00
Rubber (Dec)♥	110.50p	+2.00
Rubber (KL RSS No1)	418.0m	+1.5
Coconut Oil (Phil)§	$770.0y	-5.0
Palm Oil (Malay.)§	$610.0y	
Copra (Phil)§	497.0y	
Soyabeans (US)	197.0u	+3.0
Cotton Outlook'A' index	86.90c	-0.20
Wooltops (64s Super)	452p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Dec. u Nov/Jan. ♥ w Jan. y Nov/Dec. x Oct/Dec London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

CROSSWORD

No.8,924 Set by ADAMANT

ACROSS

1 Links the landlord to an endless correspondence (5,6)
7 Appropriate outburst (3)
9 One who detests an earthquake (5)
10 News industry engulfed by bad time without delay (9)
11 Drink that helps you keep your counsel? (9)
12 I put in daily for the university post (5)
13 Allowed first kiss for a string of pearls, maybe (7)
15 Leads logically into lounge – no mattress! (4)
18 Sour, spending a day round Jersey perhaps (4)
20 Completely different type of tyre containing carbon (7)
23 Three – or another number (5)
24 Warned off the action due (9)
26 Run into mist on the demo, but push forward (9)
27 Biblical husband brought to game of chance (5)
28 Yesterday, ready to go, no sun, still left (3)
29 With the melon prepared, mix us some pudding (5,6)

DOWN

1 Very articulate, he gets opening after firm opened (8)
2 Crafty trick putting the paintings provided on ice (8)
3 Courage never falters (5)
4 Record it about the saying (7)
5 Royal Marines dispersed in badly built cart (7)
6 Made mock of lucid turn up in unfortunate ride (9)
7 Uproar from the French at conciliation body (6)
8 There's nothing in the transport system's way of thinking (6)
14 In tears a mile out, all my charm wasted (9)
16 Outside experts on it can make bloomers (8)
17 Good boy! but not everyone is pleased (8)
19 Last month with nothing strange in good behaviour (7)
20 Ronald admits huge discrepancy will make things less smooth (7)
21 Be left to sizzle on the tower (6)
22 Breathy passage that holds back an alternative (6)
25 But should oil go off in the icehouse? (5)

Solution to Saturday's prize puzzle on Saturday December 2.
Solution to yesterday's prize puzzle on Monday December 4.

JOTTER PAD

INTERNATIONAL CAPITAL MARKETS

Prices soften despite US budget moves

By Richard Lapper in London and Lisa Bransten in New York

The breakthrough over the weekend in the US budget deadlock generated optimism in some quarters, but neither US nor European bond markets yesterday performed to expectations, with the bigger markets drifting lower.

According to one analyst, sales of US, German and UK assets by a Japanese banking institution contributed to market softness, but most observers attributed the decline to profit-taking following last week's strong run.

"This is a classic case of 'buy the rumour, sell the fact'," said Mr David Brown, economist at Bear Stearns International. "The markets had discounted some kind of budget breakthrough," he added.

■ In Europe, the day's main economic news was in the UK, where lower than expected figures for third-quarter GDP growth confirmed a picture of economic slowdown and declining inflationary pressures.

Mr Simon Briscoe, chief UK economist at Nikko Europe, said the figures "give the chancellor the green light for fiscal and monetary policy relaxation. But the degree of slowdown is rapidly becoming more of a concern than an opportunity."

The data initially gave a lift to the gilts market, with the December long gilt rising to a mid-morning high of 108⅞ in thin trading. Gilts then drifted lower in thin trading to close down a quarter point.

■ Despite the absence of any news on fundamentals, the German and French markets followed a similar pattern. On Liffe, the 10-year December bund future closed at 97.29, down 0.26.

French 10-year bonds were also weaker, although hopes of another cut in interest rates continue to boost the short end of the French yield curve.

Floor trading on Matif ended with Pibor up 0.09 at 94.50, a rise of more than half a point in the last week. "The market is taking the view that rates will come down quite quickly," Mr Graham McDevitt, bond strategist at Banque Paribas, said.

GOVERNMENT BONDS

■ Italian bonds were hit by rumours that today's preliminary November CPI figures are likely to be worse than expected. Italian 10-year yield spreads over bunds widened by 2 basis points to 532 basis points.

However, the Scandinavian markets had a better day. Danish CPI figures for October showed lower than expected year-on-year inflation of 1.9 per cent, compared with 2.1 per cent last month.

The Finnish market was buoyed by a cut of 25 basis points in the tender rate, to 4.75 per cent, on unchanged inflation expectations.

Swedish bonds were buoyed by the strength of the krona. Bear Stearns' Mr Brown said the "markets are impressed by the cautious line of the Riksbank [tha Swedish central bank] as far as long-term inflation is concerned." The Swedish 10-year yield spread over Germany narrowed by 13 basis points to close at 262 points.

■ US Treasury prices were lower in late morning trading as traders prepared to digest new supply set to come on to the market this week.

Near midday, the benchmark 30-year Treasury was off ⅛ at 108⅛ to yield 6.235 per cent. At the short end of the maturity spectrum, the two-year note was unchanged at 100⅛, to yield 5.434 per cent.

News that President Bill Clinton and Congress had reached agreement on a temporary bill to re-open the government helped bonds begin the day in New York with modest gains. But the markets had traded higher last week as investors anticipated a positive resolution to the budget process, so few analysts expected a big rise on Sunday's news.

Instead, profit-taking and preparation for the auctions sent the market modestly lower. Traders generally try to lower bond prices in advance of auctions to drive up yields, thereby making the securities more attractive to their clients.

Later, the Treasury Department was to auction $18bn in three-year notes and today it is scheduled to sell $13.5bn in 10-year notes. Both of the auctions were delayed by budget wrangling in Washington.

The dollar was mixed against the yen and the D-Mark, changing hands at Y101.30 and DM1.4105 compared with Y102.15 and DM1.4065 late on Friday.

Peugeot finance offshoot increases debut facility

By Antonia Sharpe

Banque PSA Finance Holding, a wholly-owned subsidiary of Peugeot which provides wholesale financing for Peugeot and Citroën dealers, has increased the size of its first euro-syndicated loan from FFr7.5bn to FFr12.5bn.

Bankers said that since more than FFr15bn had been raised from 60 banks during general syndication, the borrower had decided to increase the facility because it was unlikely to achieve a better cost of funding. "Syndication was a great success," one said.

PSA Finance is paying 12.5 basis points over the London interbank offered rate (Libor) on the five-year credit facility. There is a commitment fee of 6.25 basis points and a utilisation fee of 2.5 basis points when usage exceeds 50 per cent.

Banks were keen to lend to PSA Finance because its bank status means the loan will only have to be 20 per cent risk-weighted, rather than 100 per cent in the case of loans to corporate borrowers. "The lower risk weighting has a positive effect on the yield on the loan," said one banker.

SYNDICATED LOANS

The borrower's credit perspective was also enhanced by its being regulated by the French central bank, bankers said, adding that the appointment of Société Générale as one of the four arrangers was a shrewd move because it encouraged participation by other French banks. These have not been consistent players in other international loans arranged for French borrowers this year, because they have been put off by low lending margins.

The other arrangers of the deal were ABN Amro, Crédit Suisse/CS First Boston and NatWest Markets. Arrangers contributed FFr375m each, senior lead managers FFr320m, lead managers FFr240m, and managers FFr120m. The facility is now closed and will be signed shortly.

● Chemical Bank and Den norske Bank are arranging a NKr700m seven-year revolving credit facility for Schibsted, a Norwegian media group.

The borrower will start to repay the loan after the first five years. It will pay a margin of 17.5 basis points over Libor in the first five years, rising to 20 points in the last two years. The commitment fee is 8.75 basis points in the first five years, rising to 10 points in the last two.

Venezuela's DM500m three-year deal well received

By Conner Middelmann

Venezuela yesterday got in ahead of two other expected Latin American D-Mark borrowers – Colombia and the Province of Buenos Aires – by launching a long-awaited DM500m issue of three-year bonds via Commerzbank.

INTERNATIONAL BONDS

Paying a 10 per cent coupon, the paper, which yields 559 basis points over the corresponding government bond, met good retail demand, traders said. But others noted that Venezuela, with its Ba2/B+ rating, was riskier than Colombia, which is set to issue DM200m of five-year bonds this week or next via Deutsche Morgan Grenfell and SBC Warburg.

"Apart from Chile, which has no liquid bonds outstanding, Colombia is the only investment-grade Latin American borrower," one syndicate official noted.

Elsewhere, the market was quiet ahead of Thursday's Thanksgiving holiday in the US. However, activity could pick up today, with talk of a $400m five-year offering for KfW, the German reconstruction agency, with Deutsche Morgan Grenfell and Merrill Lynch rumoured as joint leads.

● Russian deputy prime minister Mr Oleg Davydov said Russia would choose an adviser next month to work on a eurobond issue worth $1bn planned for next year, Reuter reports.

"We are getting ready to go out on the capital market," Mr Davydov said. The $1bn would only be a start, with further issues possible later if it went well. "We are going to keep issuing them. The first for $1bn ... and then there could be a second and a third tranche. We will see how it goes," he said. The authorities were looking at suggestions from investment banks, and Russia was also considering a credit rating.

Mr Davydov, Russia's chief dabt negotiator who last week concluded a draft accord on rescheduling with foreign banks, said he saw no reason to wait until next May's formal signing of the restructuring before working on the deal.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
SMM Company, Tranche A‡	200	(a)	100.15	Nov.1998	0.15	-	JP Morgan Securities
Swedbank(b)‡	125	(b1)	100.87	undated	1.00	-	Morgan Stanley & Co. Intl.
D-MARKS							
Republic of Venezuela	500	10.00	100.00R	Dec.1998	0.60R	-	Commerzbank
YEN							
NPC of the Philippines(c)‡	12bn	4.85#	100.00R	Dec.2015	0.75R	+103(JGB 30)	Nomura International HK
SWISS FRANCS							
SMM Company, Tranche B‡	45	(a)	100.15	Nov.1998	0.15	-	JP Morgan (Switzerland)
LUXEMBOURG FRANCS							
ING Bank	2bn	7.125	102.45	Dec.2005	2.00	-	BGL/ BIL
AUSTRALIAN DOLLARS							
National Australia Bank	125	7.75	101.26	Jan.1999	1.50	-	ABN Amro Hoare Govett

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +⅛%. b) Callable on coupon dates from Dec.02 at par. b1) 6-mth Libor +100bp to Dec.02, then +200bp to Dec.05 and +250bp thereafter. c) National Power Corp. Puttable at maturity at par to the Asian Development Bank.

Philippine yields rise sharply

By Edward Luce in Manila

Fears of higher inflation pushed Philippine bond yields up sharply yesterday as the country inaugurated its first fully-automated bond trading system.

The unveiling of the electronic system, which coincided with the liberalisation of trading in government primary securities, came after 10 days of fierce speculative pressure on the Philippine currency.

Mr Gabriel Singson, governor of the central bank, who last week increased overnight borrowing rates by 2 percentage points to 15.12 per cent in an attempt to dampen speculative pressure on the peso, said that the interest rate rises were "only temporary".

The yield on the bellwether 91-day T-bill rose from 10.9 per cent to 11.6 per cent yesterday – almost 300 basis points up on average rates two months ago. Traders, however, predict that 91-day bond yields will hit 13 per cent by December as doubts about the government's anti-inflation policies grow.

Meanwhile, a government spokesman said yesterday that companies must have an account with the central bank and access to a Dow Jones Telerate screen to qualify for government securities trading.

The new computer-based market, which will be open to all financial institutions which can demonstrate adequate capital reserve ratios, is designed to encourage Philippine companies to tap funds locally rather than abroad.

Earlier this year, the government, which has been active on the international bond markets since 1993, released its first five-year commercial debt offering on the domestic market.

The government plans to issue longer-term domestic debt once measures to deepen the market are in place. Under a US$150m reform package, which is being funded by the Asian Development Bank, more sophisticated debt instruments are to be phased in over the next two years.

These will include the establishment of a central depository system by February 1996; a minimum number of outside non-executive directors for publicly listed companies; standard company disclosure rules for all public offerings; and an amendment of the definition of securities brokers to inclnde banks. There are also plans to develop a more active secondary debt and derivatives market.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	93.9300	+0.440	8.43	8.68	8.60
Austria		6.500	11/05	97.9800	-0.050	6.78	6.81	6.99
Belgium		6.500	03/05	87.7400	-0.160	6.83	6.85	7.18
Canada *		8.750	12/05	108.3500	-0.160	7.55	7.62	7.70
Denmark		7.000	12/04	96.3000	-0.040	7.58	7.63	7.96
France	BTAN	7.750	04/00	106.0000	-0.130	6.15	6.33	6.87
	OAT	7.750	10/05	105.1500	-0.310	7.02	7.09	7.55
Germany Bund		6.500	10/05	101.0500	-0.340	6.35	6.33	6.60
Ireland		6.250	10/04	90.4500	-0.250	7.77	7.91	8.26
Italy		10.500	09/05	95.1000	-0.210	11.34†	11.42	11.54
Japan	No 129	6.400	03/00	120.3460	+0.090	1.40	1.47	1.60
	No 174	4.600	09/04	112.9240	-0.210	2.78	2.72	2.78
Netherlands		6.750	11/05	102.6600	-0.200	6.38	6.36	6.68
Portugal		11.875	02/05	106.6000	+0.450	10.70	10.97	11.29
Spain		10.150	01/06	95.5800	-	10.57	10.65	10.96
Sweden		6.000	02/05	81.8170	+0.440	8.96	9.21	9.43
UK Gilts		8.000	12/00	103-16	-3/32	7.16	7.23	7.63
		8.500	12/05	105-01	-8/32	7.77	7.87	8.16
		9.000	10/08	108-27	-8/32	7.89	7.96	8.26
US Treasury *		6.500	08/05	104-05	-6/32	5.93	5.96	6.11
		6.875	08/25	108-13	-10/32	6.25	6.27	6.44
ECU (French Govt)		7.500	04/05	100.6200	-0.100	7.40	7.47	7.80

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.56	Two year	5.47
Prime rate	8¾	Two month	5.53	Three year	5.55
Broker loan rate	7½	Three month	5.52	Five year	5.65
Fed.funds	5¾	Six month	5.50	10-year	5.92
Fed.funds at intervention	-	One year	5.41	30-year	6.25

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	119.16	119.00	-0.16	119.36	118.96	105,504	115,827
Mar	118.34	118.14	-0.16	118.46	118.19	2,126	14,843
Jun	118.58	118.38	-0.18	118.66	118.38	457	2,912

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
115	-	-	-	-	0.37	0.73
116	-	-	3.30	0.01	0.61	0.94
117	2.06	-	-	0.03	0.84	-
118	1.14	1.40	2.01	0.10	1.26	1.62
119	0.41	-	-	0.40	-	-

Est. vol. total. Calls 13,959 Puts 13,799 . Previous day's open int. Calls 170,286 Puts 168,944.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.69	97.29	-0.28	97.69	97.24	125225	199720
Mar	97.07	96.70	-0.24	97.07	96.89	15395	17609

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
9700	0.38	0.40	0.65	0.85	0.09	0.70	0.95	1.15
9750	0.09	0.23	0.46	0.65	0.30	1.03	1.26	1.45
9800	0.02	0.12	0.31	0.48	0.73	1.42	1.61	1.78

Est. vol. total, Calls 18803 Puts 10088. Previous day's open int., Calls 219255 Puts 219628

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.80	103.12	-0.66	104.15	102.90	42054	42383
Mar	103.55	102.78	-0.62	103.90	102.70	1319	2969

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
10300	0.42	1.88	0.30	2.10
10350	0.17	1.65	0.55	2.37
10400	0.09	1.45	0.97	2.67

Est. vol. total, Calls 1741 Puts 1808. Previous day's open int., Calls 50658 Puts 48140

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	90.70	90.57	-0.03	90.87	90.52	40,486	33,255
Mar	90.46	90.45	+1.05	91.46	90.46	690	2,717

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108-16	108-09	-0-08	108-25	108-08	40570	106868
Mar	108-03	107-22	-0-08	108-03	107-23	553	5663

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
108	0-34	0-54	1-19	1-38	0-16	1-10	1-39	1-58
109	0-07	0-30	0-56	1-11	0-53	1-50	2-12	2-31
110	0-01	0-16	0-36	0-52	1-47	2-36	2-56	3-06

Est. vol. total, Calls 4193 Puts 2298. Previous day's open int., Calls 37475 Puts 35319

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	89.06	88.86	-0.08	89.06	88.86	514	8,921

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	117-31	117-26	-0-05	118-16	117-23	285,380	359,595
Mar	117-21	117-15	-0-05	118-06	117-14	35,086	86,865
Jun	117-02	117-02	-0-04	117-02	116-31	951	12,516

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	121.90	-	-	121.98	121.84	2203	0
Mar	120.54	-	-	120.68	120.49	1764	9

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Nov 20	Day's change %	Fri Nov 17	Accrued interest	xd adj. ytd		Low coupon yield Nov 20	Nov 17	Yr. ago	Medium coupon yield Nov 20	Nov 17	Yr. ago	High coupon yield Nov 20	Nov 17	Yr. ago
1 Up to 5 years (22)	122.49	-	122.48	1.99	9.72	5 yrs	7.24	7.23	8.44	7.25	7.23	8.48	7.32	7.31	8.60
2 5-15 years (21)	147.05	-0.09	147.18	1.31	11.73	15 yrs	7.89	7.87	8.43	7.94	7.92	8.54	8.00	7.99	8.79
3 Over 15 years (9)	164.03	-0.20	164.36	2.03	12.13	20 yrs	7.95	7.93	8.41	7.98	7.96	8.54	8.04	8.02	8.69
4 Irredeemables (6)	187.09	-0.01	187.11	0.82	13.47	Irred.†	8.03	8.03							
5 All stocks (58)	142.72	-0.08	142.84	1.70	11.16										

Index-linked							Inflation 5% Nov 20	Nov 17	Yr. ago	Inflation 10% Nov 20	Nov 17	Yr. ago
6 Up to 5 years (1)	194.59	-0.04	194.67	0.61	8.37	Up to 5 yrs	2.75	2.72	3.89	1.54	1.51	2.64
7 Over 5 years (11)	187.75	-0.05	187.84	1.16	4.45	Over 5 yrs	3.56	3.55	3.85	3.35	3.34	3.65
8 All stocks (12)	187.77	-0.05	187.86	1.14	4.54							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 20	Nov 17	Nov 16	Nov 15	Nov 14	Yr ago	High*	Low*
Govt. Secs. (UK)	94.58	94.73	94.92	94.33	94.35	91.74	95.51	90.22
Fixed Interest	113.36	113.53	113.09	112.82	112.76	108.15	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13
Gilt Edged bargains	98.0	109.3	106.5	79.5	72.7
5-day average	93.6	90.3	85.6	79.7	78.8

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on November 20

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1500	99⅛	99¼		5.76
Abbey Natl Treasury 6½ 03	1000	100¼	100⅝	-⅛	6.45
ABN Amro Bank 7¼ 00	1500	104⅝	105		6.70
African Dev Bk 7⅜ 23	500	103⅜	104	-⅛	7.08
Sweden 8 97	2500	103¾	105⅞		4.33
United Kingdom 7¼ 97	5500	103¼	105⅝	-⅛	4.24
Volkswagen Intl Fin 7 03	1000	102⅞	103	-⅛	6.50
World Bank 0 15	3000	27¼	27½	+⅛	6.89
World Bank 5⅞ 03	3000	97⅝	97¾	-⅛	6.26
Abbey Natl Treasury 6 03 £	1500	99⅛	99⅝	-⅛	8.10
Alliance Leics 11⅞ 97 £	100	106	106⅜		6.87
British Land 8⅞ 23 £	150	93¼	94¼		9.74
Denmark 6¾ 98 £	800	99⅛	99⅜	-⅛	7.98
EIB 6 03 £	1000	100⅝	100⅞	-⅛	7.87
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

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UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	1995 High	1995 Low
Shorts" (Lives up to Five Years)						
Treas 14pc 1996	13.84	6.48	101⅛	—	105⅝	101⅛
15¼pc 1996‡‡	14.67	6.31	103⅞	—	108⅝	103⅞
[illegible]						

Other Fixed Interest

[illegible]

"Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

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CURRENCIES AND MONEY

MARKETS REPORT

Markets cast wary eye over US budget deal

By Philip Gawith

The dollar yesterday slipped lower in European and early New York trading as earlier optimism about a budget deal in the US gave way to scepticism about whether anything much had actually been achieved.

With no further budget negotiations scheduled until after the Thanksgiving weekend, the dollar looks likely to continue in the recent narrow range. After trading as high as Y102.75 in Asia, the dollar then lost nearly two yen to trade around Y101 in New York.

Against the D-Mark it was trading at DM1.4050. These compare to Friday's closing prices in London of Y102.25, and DM1.4048.

The dollar's early strength helped sterling, but the two slipped lower in the afternoon, with the pounds trade weighted index finishing at a new low of 82.2, after opening at 82.5. Against the D-Mark it finished at DM2.1842, from DM2.1803, while against the dollar it closed at $1.5483, from $1.5521.

In Europe the main focus of activity was the cut in Finnish interest rates, with the tender rate falling by 25 basis points to 4.75 per cent, the third cut in under two months. The Swedish krona, meanwhile, was trading near an 18 month high against the D-Mark, at SKr4.652, from SKr4.674.

Elsewhere in Europe the D-Mark was generally weaker, although it reclaimed some lost ground as the dollar fell during the afternoon.

■ The story of the day was the steady descent of the dollar as it returned the gains made in Asian trading. Analysts said traders in Europe had taken the view that nothing more than a very preliminary deal had been agreed, with "everything still on the table."

"We have come a little bit closer to a deal, but not much closer," said a trader at one European bank in London.

Mr Joe Prendergast, currency strategist at Merrill Lynch in London, said: "We certainly don't have a budget deal yet, but we have seen some steps in the right direction." He said the dollar had now returned to the pre-crisis situation where everybody was discounting a budget deal.

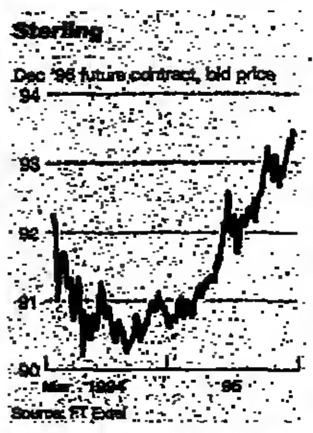
So long as the budget talks remain unresolved, there is not much likelihood of a sharp move in the dollar. Some of the fundamental trends, however, favour a stronger dollar, especially the recent Japanese trade figures. "It is quite clear that significant important penetration is taking place, and that the number one policy dilemma between the US and Japan is disappearing," said one New York analyst.

■ Pound in New York

Nov 20	—Latest—	– Prev. close –
£ spot	1.5545	1.5430
1 mth	1.5531	1.5418
3 mth	1.5512	1.5399
1 yr	1.5407	1.5296

Sterling

Dec '95 future contract, bid price



Source: FT Extel

■ Sterling, which hit a record low late on Friday against the D-Mark, was let off the book by the early rally in the dollar. Many analysts, however, expect it to still trade lower in the run-up to the budget.

One concern is that there is a potential overhang of selling pressure from UK companies who have held off from selling sterling in expectation that it would rally.

Mr Prendergast said that as recently as two weeks ago, the options market had not been pricing in any political risk, with sterling/dollar volatilities at a low for the year, and one month risk reversals at par. Both of these have since moved quite sharply, "correcting the somewhat complacent situation of a few weeks ago," said Mr Prendergast.

He predicted that a decent recovery was possible for sterling if the more drastic market scenarios of a large tax cut in the budget, and a cut in interest rates, did not materialise.

There is not much support to be had for sterling from the charts. Mr Brian Marber, an independent technical analyst in London, said: "$1.5350 appears to be the next stop. But using British bus terminology, this one is a "request stop", that is, unless someone puts up a hand, sterling will go right on by. Let's hope it runs over neither the man in the street nor on the Clapham omnibus."

■ Short sterling contracts all lost ground yesterday as the poor performance of German bunds put the gilt market under pressure, and this seeped over into the short end of the yield curve. The March 1996 contract closed at 93.63, after opening at 93.67.

Rates were slightly firmer in the cash market, with three month LIBOR firming to finish at 6 11/16 per cent, from 6 5/8 per cent.

In its daily operations the Bank of England cleared a £1.2bn money market shortage.

■ OTHER CURRENCIES

Nov 20	£	$
Czech Rp	40.5299 - 40.5611	26.2180 - 26.2260
Hungary	205.711 - 205.968	133.080 - 133.110
Iran	4639.80 - 4638.00	3000.00 - 3000.00
Kuwait	0.4635 - 0.4638	0.2998 - 0.2999
Poland	3.8279 - 3.8358	2.4760 - 2.4800
Russia	7061.77 - 7065.21	4568.00 - 4570.00
U.A.E.	5.6783 - 5.6806	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Nov 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.3696	+0.0265	623 - 769	15.4280	15.2251	15.3392	2.4	15.2806	2.3	-	-	107.1
Belgium	(BFr)	44.8907	+0.035	727 - 086	45.1050	44.6410	44.7857	2.8	44.5007	2.7	43.8057	2.4	109.7
Denmark	(DKr)	8.4637	+0.0109	597 - 676	8.4976	8.4266	8.456	1.1	8.4395	1.1	8.377	1.0	110.1
Finland	(FM)	6.5112	+0.0055	060 - 163	6.5580	6.4790	6.5068	0.8	6.4987	0.8	-	-	88.9
France	(FFr)	7.5269	-0.0031	236 - 301	7.5494	7.4754	7.5238	0.5	7.5958	-0.3	7.5325	-0.1	110.8
Germany	(DM)	2.1842	+0.0039	831 - 852	2.1962	2.1732	2.1784	2.7	2.1697	2.7	2.1285	2.6	112.4
[illegible]													
Saudi Arabia	(SR)	5.7984	-0.0219	961 - 007	5.8094	5.7798	-	-	-	-	-	-	-
Singapore	(S$)	2.1849	-0.0059	837 - 861	2.1870	2.1781	-	-	-	-	-	-	-
South Africa	(R)	5.6467	-0.0142	444 - 490	5.6511	5.6216	-	-	-	-	-	-	-
South Korea	(Won)	1196.99	+1.6	660 - 738	1197.69	1186.72	-	-	-	-	-	-	-
Taiwan	(T$)	42.2735	-0.0453	568 - 902	42.2951	42.0462	-	-	-	-	-	-	-
Thailand	(Bt)	38.8619	-0.1582	469 - 769	38.9230	38.7720	-	-	-	-	-	-	-

† Rates for Nov 17. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	9.9396	+0.0542	368 - 424	9.9640	9.9350	9.9245	1.8	9.8944	1.6	9.7851	1.6	107.5
Belgium	(BFr)	28.0910	+0.131	250 - 370	29.2200	28.8800	28.89	1.7	28.911	1.7	28.611	1.4	109.5
Denmark	(DKr)	5.4795	+0.0275	720 - 750	5.5103	5.4568	5.4742	-0.2	5.47	0.3	5.4795	-0.1	106.5
Finland	(FM)	4.2106	+0.0192	083 - 133	4.2431	4.1914	4.2104	0.1	4.2093	0.1	4.2048	0.1	88.2
France	(FFr)	4.8677	+0.0162	665 - 688	4.8910	4.8510	4.869	-0.3	4.8715	-0.3	4.884	-0.3	110.6
Germany	(DM)	1.4125	+0.0077	121 - 129	1.4247	1.4082	1.4105	1.7	1.4083	1.7	1.3907	1.5	112.0
[illegible]													
Saudi Arabia	(SR)	3.7505	-	504 - [illegible]									
Singapore	(S$)	1.4130	+0.0015	125 - [illegible]									
South Africa	(R)	3.6516	+0.0045	510 - [illegible]									
South Korea	(Won)	774.100	+4.05	000 - [illegible]									
Taiwan	(T$)	27.3385	+0.073	330 - [illegible]									
Thailand	(Bt)	25.1320	-0.008	270 - [illegible]									

† SDR rate per $ for Nov 17. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 17: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4 1/8	4	4	4 1/8	4 1/8	6.00	3.50	-
week ago	3 15/16	4	4	4 1/16	4 1/16	6.00	3.50	-
France	5 1/2	5 9/16	5 1/2	5 1/2	5 1/2	4.80	-	6.10
week ago	6 1/8	5 3/4	6 1/4	6	5 13/16	5.00	-	5.60
Germany	3 7/8	3 13/16	3 13/16	3 3/4	3 3/4	5.50	3.50	3.98
week ago	3 15/16	3 15/16	4	3 15/16	3 15/16	5.50	3.50	4.02
Ireland	5 13/16	5 3/4	5 13/16	5 13/16	5 7/8	-	-	6.25
week ago	5 13/16	5 7/8	5 7/8	5 7/8	6 1/8	-	-	6.25
Italy	10 1/4	10 1/4	10 1/4	10 1/2	10 1/2	-	9.00	10.60
week ago	10 5/8	10 3/8	10 3/8	10 7/16	10 9/16	-	9.00	10.60
Netherlands	3 3/4	3 13/16	3 3/4	3 3/4	3 13/16	-	3.50	3.60
week ago	3 3/4	3 25/32	3 13/16	3 13/16	3 7/8	-	3.50	3.70
Switzerland	2 1/4	2 3/16	2 1/16	1 13/16	1 13/16	5.00	2.00	-
week ago	2	2 3/16	2 1/16	1 15/16	2	5.00	2.00	-
US	5 3/4	5 3/4	5 3/4	5 5/8	5 1/2	-	5.25	-
week ago	5 13/16	5 3/4	5 3/4	5 13/16	6 1/16	-	5.25	-
Japan	1/2	1/2	1/2	1/2	9/16	-	0.50	-
week ago	1/2	1/2	1/2	1/2	1/2	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 13/16	5 5/8	5 9/16	5 3/8	-	-	-
week ago	-	5 13/16	5 7/8	5 3/4	5 13/16	-	-	-
US Dollar CDs	-	5.60	5.47	5.41	5.35	-	-	-
week ago	-	5.60	5.48	5.44	5.44	-	-	-
ECU Linked Ds	-	5 1/2	5 3/8	5 3/8	5 3/8	-	-	-
week ago	-	5 1/2	5 3/8	5 3/8	5 5/16	-	-	-
SDR Linked Ds	-	3 3/4	3 3/4	3 5/8	3 17/32	-	-	-
week ago	-	3 3/4	3 3/4	3 5/8	3 17/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 20	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 1/16 - 3 15/16	4 1/16 - 3 15/16	4 - 3 7/8	4 1/16 - 3 15/16	4 1/32 - 3 29/32	4 1/16 - 3 15/16
Danish Krone	5 1/2 - 5 1/4	5 5/8 - 5 3/8	5 13/16 - 5 9/16	5 7/16 - 5 1/4	5 13/16 - 5 9/16	5 7/8 - 5 5/8
D-Mark	4 - 3 1/2	3 29/32 - 3 25/32	3 31/32 - 3 27/32	4 - 3 7/8	3 29/32 - 3 25/32	3 29/32 - 3 25/32
Dutch Guilder	3 3/4 - 3 5/8	3 3/4 - 3 5/8	3 3/4 - 3 5/8	3 3/4 - 3 11/16	3 13/16 - 3 3/4	3 7/8 - 3 13/16
French Franc	5 1/2 - 5 3/8	5 5/8 - 5 3/8	5 1/2 - 5 3/8	5 9/16 - 5 7/16	5 9/16 - 5 7/16	5 1/2 - 5 3/8
Portuguese Esc.	8 13/16 - 8 9/16	8 13/16 - 8 11/16	8 13/16 - 8 3/4	9 1/32 - 8 7/8	9 1/32 - 8 7/8	9 1/32 - 8 7/8
Spanish Peseta	9 5/8 - 9 1/2	9 13/16 - 9 7/16	9 1/2 - 9 3/8	9 1/2 - 9 3/8	9 1/2 - 9 3/8	9 5/8 - 9 1/2
Sterling	6 13/16 - 6 7/8	6 13/16 - 6 7/8	6 17/32 - 6 19/32	6 11/16 - 6 5/8	6 13/16 - 6 17/32	6 3/16 - 6 1/2
Swiss Franc	2 3/4 - 2 1/2	2 1/2 - 2 1/4	2 3/16 - 2 1/16	2 1/8 - 2	1 13/16 - 1 11/16	1 13/16 - 1 11/16
Can. Dollar	6 1/16 - 5 7/8	6 - 5 13/16	5 13/16 - 5 11/16	6 - 5 7/8	6 1/16 - 5 15/16	6 3/16 - 6 1/16
US Dollar	5 7/8 - 5 3/4	5 13/16 - 5 11/16	5 3/4 - 5 5/8	5 13/16 - 5 11/16	5 11/16 - 5 9/16	5 11/16 - 5 1/2
Italian Lira	10 3/8 - 10 1/8	10 7/16 - 10 3/16	10 7/16 - 10 3/16	10 9/16 - 10 7/16	10 9/16 - 10 7/16	10 5/8 - 10 1/2
Yen	1/2 - 7/16	1/2 - 3/8	7/16 - 3/16	3/8 - 1/4	7/16 - 3/16	9/16 - 15/32
Asian $Sing	1 3/8 - 1 1/4	1 3/4 - 1 5/8	2 1/8 - 2 1/8	2 1/2 - 2 3/8	2 13/16 - 2 3/8	2 13/16 - 2 13/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.49	94.50	+0.08	94.53	94.45	25,262	48,072
Mar	94.74	94.75	+0.08	94.79	94.73	8,532	37,704
Jun	94.84	94.87	+0.07	94.89	94.84	3,854	36,066

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.08	96.08	-	96.09	96.07	7894	127410
Mar	96.26	96.26	-0.01	96.29	96.25	12197	165316
Jun	96.28	96.27	-0.01	96.30	96.26	9445	123375
Sep	96.17	96.15	-0.01	96.18	96.15	5868	101637

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	89.80	89.47	-0.07	89.62	89.47	11825	22927
Mar	89.90	89.80	-0.05	89.92	89.80	4005	29535
Jun	90.10	90.00	-0.04	90.10	89.98	1107	15862
Sep	90.16	90.03	-0.06	90.16	90.03	627	8868

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.89	97.87	-0.01	98.00	97.94	3280	20846
Mar	98.18	98.18	-	98.20	98.16	2590	24094
Jun	98.16	98.20	+0.02	98.21	98.16	952	8549
Sep	98.12	98.11	+0.01	98.13	98.10	210	4545

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.57	94.55	-	94.58	94.55	1189	7630
Mar	94.74	94.71	-	94.74	94.71	984	5922
Jun	94.79	94.74	-0.01	94.79	94.74	259	3610
Sep	94.70	94.65	-	94.70	94.65	197	1930

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.85	16.77	4.865	2.154	5496	5.447	21.45	509.5	418.6	22.63	3.927	2.228	4.654	3.444	349.1	2.653
Denmark	(DKr)	53.04	10	8.893	2.580	1.142	2915	2.889	11.38	270.2	222.0	12.00	2.083	1.181	2.468	1.827	185.1	1.407
France	(FFr)	59.64	11.24	10	2.902	1.285	3278	3.248	12.79	303.8	249.6	13.50	2.342	1.329	2.775	2.054	208.2	1.582
Germany	(DM)	20.55	3.875	3.446	1	0.443	1130	1.120	4.408	104.7	86.03	4.652	0.807	0.458	0.957	0.708	71.75	0.545
Ireland	(I£)	46.42	8.753	7.784	2.259	1	2551	2.528	9.957	236.5	194.3	10.51	1.823	1.034	2.160	1.599	162.0	1.232
Italy	(L)	1.820	0.343	0.305	0.089	0.039	100.	0.099	0.390	9.270	7.617	0.412	0.071	0.041	0.085	0.063	6.352	0.048
Netherlands	(Fl)	18.36	3.462	3.079	0.893	0.396	1009	1	3.938	93.54	76.85	4.155	0.721	0.409	0.854	0.632	64.08	0.487
Norway	(NKr)	46.62	8.791	7.816	2.268	1.004	2562	2.539	10	237.5	195.2	10.55	1.831	1.039	2.170	1.606	162.8	1.237
Portugal	(Es)	19.63	3.701	3.291	0.955	0.423	1079	1.069	4.210	100.	82.16	4.443	0.771	0.437	0.913	0.676	68.52	0.521
Spain	(Pta)	23.89	4.505	4.006	1.162	0.515	1313	1.301	5.124	121.7	100.	5.407	0.938	0.532	1.112	0.823	83.40	0.634
Sweden	(SKr)	44.16	8.331	7.406	2.150	0.952	2428	2.408	9.476	225.1	184.9	10	1.735	0.984	2.056	1.522	154.2	1.172
Switzerland	(SFr)	25.46	4.801	4.269	1.239	0.548	1399	1.387	5.461	129.7	106.6	5.763	1	0.567	1.185	0.877	88.88	0.676
UK	(£)	44.89	8.464	7.527	2.184	0.967	2467	2.445	9.626	228.7	187.9	10.16	1.763	1	2.089	1.546	156.7	1.191
Canada	(C$)	21.49	4.052	3.603	1.045	0.463	1181	1.170	4.609	109.5	89.95	4.864	0.844	0.479	1	0.740	75.01	0.570
US	($)	29.04	5.475	4.869	1.413	0.625	1596	1.582	6.228	147.9	121.5	6.572	1.140	0.647	1.351	1	101.4	0.770
Japan	(Y)	28.65	5.401	4.803	1.394	0.617	1574	1.560	6.144	145.9	119.9	6.484	1.125	0.638	1.333	0.987	100.	0.760
Ecu		37.69	7.107	6.320	1.834	0.812	2071	2.053	8.084	192.0	157.8	8.531	1.480	0.840	1.754	1.298	131.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7108	0.7080	-0.0043	0.7113	0.7030	20,052	52,166
Mar	0.7090	0.7120	-0.0036	0.7121	0.7090	440	4,248
Jun	-	0.7150	-0.0035	-	0.7345	6	541

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9821	0.9861	+0.0022	0.9883	0.9786	14,202	61,805
Mar	0.9960	0.9995	+0.0020	1.0018	0.9960	150	6,201
Jun	-	1.0102	-	-	-	7	394

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8801	0.8775	-0.0040	0.8801	0.8730	10,819	35,324
Mar	0.8850	0.8863	-0.0032	0.8872	0.8845	116	2,334
Jun	-	0.8973	-	-	-	4	483

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5400	1.5432	-0.0004	1.5438	1.5412	12,229	47,836
Mar	1.5404	1.5400	-0.0006	1.5420	1.5380	251	413
Jun	-	1.5380	-	1.5380	-	2	10

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

Certs of Tax dep. (£100,000) [illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or −	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Baring 8pc Cm 2nd Pf		80½	—	98	50¾	6.31	18.8	–
Cater Allen	♣v	465	—	525	418	161.8	7.0	7.8
Close Bros	♣gm□	322	—	*340½	216¼	388.7	3.4	14.8
Gerrard & Nat	♣v	450xd	−2	480	395	224.0	9.1	14.9
Hambros	v□	209	+2	290	189	387.7	4.8	–
7½pc Cv Pf		97	—	112	94	125.0	9.7	–
Joseph (L)	♣v	463	—	463	353	24.5	4.9	25.9
King & Shaxson	♣v□	114	—	145	85	29.3	0.8	8.8
Rea Brothers	♣v	45	—	67	44	21.8	2.8	18.0
Schroders	♣†hv□	1303	+3	*1478	906¼	1,987	1.4	18.6
N/V	†hv	1008	+3	*1180	823¼	483.1	1.8	15.0
Singer & Fried	♣†v□	109	—	110	81	214.4	4.2	11.3
8½pc Cv Ln 09/14		£136	+½	£139	£109	21.7	8.3	–
Union	♣v□	111	—	121	70	28.5	3.4	–
Wintrust	♣v	200	−3	259	200	24.9	4.9	16.6

BANKS, RETAIL

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

	Notes	Price	+ or -	1995 high	low	Mkt Cap£m	Yld Gr's	P/E
Trans Can Pipe	♥	8¹³⁄₁₆	+¹⁄₁₆	$	7¹³⁄₁₆	1,804	4.5	

SOUTH AFRICANS

	Notes	Price	+ or -	1995 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31¹³⁄₁₆	—	£36	£29	2,109	2.7	Φ
Barlow	‡	883½	+¼	£8¾	847	1,741	1.7	Φ
Gold Flds Prop R		160xd	—	152	118	14.3	7.1	6.7
NK Props		88	—	95	80	3.48	13.0	-
SASOL	♥	591	—	648	435	3,228	2.5	-
SA Brews		£25¾	+¾	£27¾	£12¾	4,716	1.7	28.4
Standard Bank	□	£27½	+¼	£27½	£20[illegible]	3,291	1.7	19.0
Tiger Oats		1060	—	1087	700	1,594	1.8	Φ
Tongaat-Hulett	†	862	—	862	636	603.9	2.2	16.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International System.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas Incorporated companies listed as an approved

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الأصل

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON STOCK EXCHANGE

MARKET REPORT

FT-SE 100 closes well below new intra-day high

By Steve Thompson, UK Stock Market Editor

Share prices in London moved up again to all-time highs yesterday, measured by the stock market's main indices, the FT-SE Actuaries All-Share and the FT-SE 100.

There were, however, signs that the market's move to record levels could be running out of steam. Wall Street, one of the prime motivating forces behind the London market's recent rise, briefly penetrated the 5,000 level on the Dow Jones Industrial Average, shortly after the US market opened for trading. But it quickly dropped back to the mid-4,980s, and around two hours after London closed for business the Dow was still jousting with the 5,000 mark.

The failure of the US index to move decisively through 5,000 was one of a number of worrying signals affecting London. Others included the emergence of yet more profits warnings, notably from Rexam, the paper group, and a decline in international bond markets.

Gilts, up around four ticks early in the session, were never performing in a convincing fashion and fell away as the day wore on, eventually closing around nine ticks down on balance.

Dealers said London had run into some determined selling pressure when it passed 3,630. "Above that level, we ran into some real selling," said one marketmaker.

The FT-SE 100 index finished the day a net 19.6 firmer at an all-time closing high of 3,628.8, after reaching a record intra-day peak of 3,639.5. The FT-SE-A All-Share index ended at a best ever 1,776.97, up 7.47.

The market's early euphoria never really extended beyond the leading issues, with the FT-SE Mid 250 index always underperforming the 100 index and finally closing only 2.3 higher at 3,966.8.

Earlier, the stock market gave an immediate positive response to the rise by Wall Street on Friday night, when the Dow came within four points of the 5,000 level on the Dow Jones Industrial Average after "double-witching hour" which saw the expiry of index and stock options in the US.

The FT-SE 100 kicked off some 12 points higher and quickly moved up to show a gain of 20 points as some institutions showed signs of being panicked into the market, after standing back during last week's advance. News of a modest downward revision in third-quarter gross domestic product gave a modest boost to sentiment, increasing the chances of a cut in domestic interest rates, dealers said.

News in the early afternoon of another significant profits warning, plus a bout of nerves as Wall Street opened, began to unsettle the market, with the FT-SE 100 eventually closing well below the day's best.

Rexam, the paper group, delivered the latest profits warning to hit the market, warning of destocking and a potential 20 per cent decline in profits. The Rexam move comes less than a week after a similar warning from Arjo Wiggins Appleton. Bunzl and David S. Smith were other paper issues to suffer as the news circulated in the market.

Turnover in equities reached an encouragingly buoyant 657m shares. Customer business on Friday was valued at £1.62bn.

FT-SE-A All-Share index

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover

Source: FT Extel

Indices and ratios

FT-SE 100	3628.8	+19.6	FT Ordinary index	2647.6	+8.7
FT-SE Mid 250	3966.8	+2.3	FT-SE-A Non Fins p/e	16.73	(16.68)
FT-SE-A 350	1801.8	+7.9	FT-SE 100 Fut Dec	3629	+8.0
FT-SE-A All-Share	1776.97	+7.47	10 yr Gilt yield	7.76	(7.73)
FT-SE-A All-Share yield	3.80	(3.81)	Long gilt/equity yld ratio:	2.12	(2.10)

Best performing sectors

1 Leisure & Hotels +1.8
2 Pharmaceuticals +1.3
3 Insurance +1.2
4 Banks, Retail +1.2
5 Life Assurance +1.1

Worst performing sectors

1 Paper, Pckg & Print -3.7
2 Chemicals -0.6
3 Transport -0.6
4 Distributors -0.5
5 Household Goods -0.5

Rexam hit by warning

Paper shares, battered by a wave of profits warnings in recent weeks, were dealt a further body blow yesterday when sector leader Rexam announced that 1995 profits were heading for a 20 per cent setback.

Rexam, Arjo Wiggins Appleton, Bunzl and David S. Smith all plunged to the bottom of their respective index performance rankings. Rexam fell more than 10 per cent, and the four stock prices incurred an average decline of more than 6 per cent.

Rexam, which stood at 519p in July, dropped to a new 1995 low, closing 37 off at 335p. At 9.30m shares, turnover was the heaviest since mid-August. Arjo retreated 12½ to 180p, Bunzl shed 8½ to 171p and Smith lost 10½ to 255p.

After recent cautious statements from KNP and Arjo Wiggins, Rexam was widely expected to follow suit. But it was the extent rather than the timing of the Rexam statement that set alarm bells ringing across the sector.

The depth of the group's destocking difficulties also rekindled the management succession stories that have dogged Rexam for most of the past year. Chief executive Mr David Lyon is due to retire next June.

Most analysts marked down their profits estimates in line with the Rexam statement, and the 1995 range looks to be £180m to £185m. There was vague talk of dividend cuts yesterday with cover for a maintained payout shrinking to close to 1.5 times.

Ladbroke rallies

Shares in hotels and leisure giant Ladbroke gained 5½ at 132½p following weekend press reports that suggested the group may soon be on the receiving end of a bid from Granada Group.

However, analysts quickly dismissed talk of such a merger and instead attributed part of the rise to buying from fans of the stock wishing to see it retain its place in the premier FT-SE 100 listings.

Ladbroke shares had retreated sharply following its recent profits warning, which made it vulnerable to being removed from the listings. Volume at the close was 5.2m. An analyst commenting on the bid talk said: "I cannot see the logic of such a move for Granada. It would be taking on problems it can do without."

Granada was also mentioned as a possible suitor for Pearson, owner of the Financial Times. Shares in Pearson moved ahead 7 to 655p, with turnover said to be dull. There are those in the market who believe such a deal is not so far fetched and one said yesterday: "This argument has an element of logic but I cannot see it being a contested bid; it would have to be an agreed merger."

None of the acquisition talk dimmed the attractions of Granada and the stock forged ahead 20 to 700p in trade of 2.4m shares.

The group reports final figures tomorrow and traders expect it to produce profits which beat analysts' predictions. The market range is between £340m and £350m.

GRE advances

The bid spotlight among composite insurers shifted to Guardian Royal Exchange, sending the shares racing forward late in the session.

The stock surged 13¼ to 247½p, making it the best performer among Footsie constituents. German insurance group Allianz was again mentioned as a possible suitor for the UK company, although there were those suggesting that an offer may come from a UK commercial bank.

However, some people are cautious about the attractions of GRE, including Mr John Marr at Charterhouse Tilney. He said he would continue to be a seller of the shares because of "the forthcoming deregulation of the German insurance market which will hit GRE's already unprofitable German subsidiary, and the poor quality of the group's life operations". He said he was also concerned about the group's UK direct writing operation, "which has yet to attain a decent market share".

Elsewhere in the sector, General Accident bounced from last week's retreat and the shares gained 10 at 669p.

A shortage of stock was reported in Lloyds Abbey Life, which helped the shares firm 12 to 453p.

Cable and Wireless and Vodafone moved ahead among telecoms shares, but BT had another dull day as regulatory doubts continued to undermine sentiment.

Worries that BT's dominant position in the lucrative market for international calls is set to be carved up by competitive pressure sent the shares spinning lower in good two-way trading. They closed at a 17-month low of 356p, off 5, in turnover of 26m.

Hit at the end of last week by mounting evidence of boardroom rows, C&W rallied ahead of a statement from the company scheduled for this morning. The shares put on 6 at 423p. A buy note from ABN-Amro Hoare Govett supplied underpinning.

Vodafone, mobile phones leader in the UK, hardened 3¼ to 254p in 13m shares traded ahead of today's interim results statement.

News that copper cables group BICC had short-listed three potential buyers of its househuilding division gave the shares a further upward push. They ended 5 ahead at 281p for a two-day improvement of more than 5 per cent.

A profits warning sent shares in precision instruments group Graseby plummeting by 18 to 125p.

Leading conglomerates had a quiet session, although BTR added 5 at 338p following a positive note from NatWest Securities.

The broker has trimmed its profits estimates for this year and next by 1 per cent, as a result of dull trends in Australia, but sees the shares as an "add" given a below average rating and the potential greater focus on core divisions. "We remain convinced that BTR has an opportunity to enhance shareholder value significantly," NatWest said.

Channel tunnel operator Eurotunnel continued to claw back towards the £1 mark, improving 3 to 99p on the back of steady buying by French investors. The shares are now almost a third above their September low. P&O, which makes a presentation to Edinburgh institutions today, retreated 10 to 486p.

International trader Inchcape suffered from rumours that a big broker was about to downgrade dividend estimates. The shares shed 10 to 287p.

Leisure group Thorn EMI rose 17 to 1547p ahead of today's interim figures. Talk in the market suggested that the company would unveil news of the group's demerger.

There are also hopes that the latest release from the Beatles will boost record sales substantially at EMI.

Mr Andrew Hunter at ABN Amro Hoare Govett believes the stock to be "undervalued" and said: "I think the shares are reflecting a lot of the excitement in the music business, particularly the release schedules at EMI and Virgin."

Yield buyers were reported in Associated British Foods, 13 higher at 715p.

There was nervous trading in Northern Foods ahead of today's interim figures and the shares surrendered 6 to 166p.

MARKET REPORTERS: Joel Kibazo, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Nov 20	Nov 17	Nov 16	Nov 15	Nov 14	Yr ago	*High	*Low
Ordinary Share	2647.6	2638.9	2641.8	2611.0	2604.2	2399.8	2666.5	2238.3
Ord. div. yield	4.05	4.06	4.06	4.12	4.11	4.33	4.73	4.02
P/E ratio net	15.85	15.89	15.69	15.68	15.69	18.18	21.33	15.35
P/E ratio nil	15.68	15.72	15.73	15.52	15.50	17.80	22.21	15.17

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2647.7	2652.8	2657.8	2654.4	2658.8	2658.2	2657.9	2652.7	2646.0	2660.3	2644.8

	Nov 20	Nov 17	Nov 16	Nov 15	Nov 14	Yr ago
SEAQ bargains	34,277	35,303	32,238	27,482	28,425	24,305
Equity turnover (£m)†	-	1621.0	1987.1	1738.2	1625.3	1260.8
Equity bargains†	-	41,903	38,137	33,796	35,125	28,540
Shares traded (m)†	-	620.8	714.2	645.6	667.4	548.5

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	930	Total Highs	149	Total contracts	40,112
Total Falls	353	Total Lows	34	Calls	27,675
Same	1,592			Puts	12,437

Nov. 20 *Data based on Equity shares listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock
-	F.P.	32.2	93	92	Abtrust Asian Smlr
-	F.P.	2.24	33	32	Do Warrants
-	F.P.	2.13	10	9	†Arlon Props
306	F.P.	47.3	301	285	BZW Eqs Bermuda
-	F.P.	61.2	102	101	Benfield & Rea
-	F.P.	5.76	64	60	†Chartwell
-	F.P.	44.5	139	102	†Cross Intl
80	F.P.	8.79	71	65	†David Glass
145	F.P.	58.8	152	142½	Enterprise Inns
-	F.P.	91.0	95	90	Guinness Flight
-	F.P.	181.0	195	191	Do Units
-	F.P.	2.00	13	10	Do Warrants
125	F.P.	28.0	156	128	Heritage Bath
-	F.P.	21.1	543	488	†Intl Greetings
45	F.P.	18.7	65	52	†MultiMedia
-	F.P.	14.1	101	97	Northern Venture
100	F.P.	24.8	102	99	Perpetual UK Smlr
-	F.P.	-	98	96	Schroder Asia Pc
-	F.P.	-	36	32	Do Warrants
-	F.P.	187.9	280	263	Vero Group

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 17	% chg on day
Gold Mines Index (34)	1987.20	+1.8
■ Regional indices		
Africa (16)	2484.81	+1.5
Australasia (6)	2292.83	+1.9
North America (12)	1632.57	+2.0

FUTURES AND OPTIONS

FT - SE Actuaries Share Indices — The UK Series

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

TRADING VOLUME

■ Major Stocks Yesterday

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 20 / Sch)

BELGIUM/LUXEMBOURG (Nov 20 / Frs.)

CZECH REP (Nov 20 / Koruna)

DENMARK (Nov 20 / Kr)

FINLAND (Nov 20 / Mkk)

FRANCE (Nov 20 / Frs.)

GERMANY (Nov 20 / Dm.)

GREECE (Nov 20 / Drachma)

ITALY (Nov 20 / Lire)

NETHERLANDS (Nov 20 / Fls.)

NORWAY (Nov 20 / Kroner)

POLAND (Nov 20 / Zloty)

PORTUGAL (Nov 20 / Escudo)

SPAIN (Nov 20 / Pts.)

SWEDEN (Nov 20 / Kronor)

SWITZERLAND (Nov 20 / Frs.)

TURKEY (Nov 20 / TK Lira)

PACIFIC

JAPAN (Nov 20 / Yen)

HONG KONG (Nov 20 / H.K.$)

INDONESIA (Nov 20 / Rupiah)

MALAYSIA (Nov 20 / MYR)

NEW ZEALAND (Nov 20 / NZ.$)

SINGAPORE (Nov 20 / S$)

AUSTRALIA (Nov 20 / Aust.$)

SOUTH KOREA (Nov 20 / Won)

TAIWAN (Nov 20 / TW $)

THAILAND (Nov 20 / Baht)

NORTH AMERICA

CANADA

TORONTO (Nov 20 / Can $)
4 pm close

MONTREAL (Nov 20 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Nov 20 / Rand)

INDICES

	Nov 20	Nov 17	Nov 16	1995 High		1995 Low	
Argentina							
General (29/12/77)	(u)	13801.13	13435.84	18831.10	2/1	9831.08	9/3
Australia							
All Ordinaries(1/1/80)	2126.4	2119.7	2108.1	2168.90	18/9	1822.30	8/2
All Mining(1/1/80)	980.7	980.0	974.7	1029.58	7/8	795.30	8/2
Austria							
Credit Aktien(30/12/84)	336.74	333.39	332.71	385.42	2/1	328.50	27/10
Traded Index(2/1/91)	914.92	901.45	901.30	1088.33	2/1	882.15	23/10
Belgium							
BEL20 (1/1/91)	1473.24	1459.44	1457.83	1481.39	2/8	1271.53	9/3
Brazil							
Bovespa (29/12/83)	(u)	40536.0	40036.0	48812.00	19/9	21362.08	9/3
Canada							
Metals Mins+(1975)	(u)	4537.97	4927.03	5232.77	21/8	3806.83	1/3
Composite+ (1975)	(u)	4589.60	4575.70	4710.39	12/7	3961.41	30/1
Portfolio§§ (4/1/83)	(u)	2235.48	2222.42	2307.84	12/7	1969.36	30/1
Chile							
IGPA Gen¥(31/12/80)	(u)	5594.5	5589.7	6383.10	11/7	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	358.73	355.63	355.34	378.44	25/8	330.01	29/3
Finland							
HEX General(28/12/90)	1858.36	1829.10	1843.88	2332.22	14/8	1588.39	29/3
France							
SBF 250 (31/12/90)	1243.19	1248.51	1253.68	1322.38	12/5	1154.41	13/3
CAC 40(31/12/87)	1881.40	1890.52	1905.14	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	794.35	788.89	790.75	846.76	19/9	766.87	30/3
Commerzbank(1/12/53)	2305.8	2282.9	2294.8	2427.80	19/9	2018.20	30/3
DAX (30/12/87)‡	2218.30	2201.38	2200.72	2317.01	15/9	1910.85	28/3
Greece							
Athens SE(31/12/80)	876.17	894.41	895.59	982.59	4/8	787.10	16/3
Hong Kong							
Hang Seng(31/7/64)	9373.91	9287.90	9367.85	10032.93	17/10	6967.93	23/1
India							
BSE Sens.(1979)	3111.23	3103.03	3143.10	3932.09	2/1	3015.07	3/5
Indonesia							
Jakarta Comp.(10/8/82)	453.13	456.34	459.90	519.18	11/8	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	2238.53	2225.84	2217.42	2238.79	20/11	1813.59	23/1
Italy							
Banca Comm Ital (1972)	577.52	573.13	573.02	680.54	10/2	556.09	23/10
MIB General (2/1/85)	912.0	905.0	905.0	1078.00	10/2	877.09	23/10
Japan							
Nikkei 225 (16/5/49)	18383.82	18151.16	17839.52	19684.04	4/1	14485.41	3/7
Nikkei 300 (1/10/82)	273.26	269.97	266.64	288.16	4/1	222.25	13/6

	Nov 20	Nov 17	Nov 10	1995 High		1995 Low	
Japan							
Topix (4/1/68)	1456.38	1439.26	1424.86	1553.40	4/1	1193.18	13/6
2nd Section (4/1/68)	1862.43	1876.07	1862.35	2130.88	4/1	1441.80	13/6
Malaysia							
KLSE Comp.(4/4/86)	893.80	889.91	894.04	1085.04	5/6	848.87	24/1
Mexico							
IPC (Nov 1978)	(u)	2349.46	2262.46	2622.21	8/9	1447.52	27/2
Netherland							
CBS TtlRtnGen(End 83)	504.6	501.0	499.3	511.80	19/9	422.90	23/3
CBS All Shr (End 83)	305.6	303.4	302.3	311.30	15/9	265.28	23/3
New Zealand							
Cap. 40 (1/7/86)	2147.90	2155.57	2155.02	2286.02	20/10	1981.43	5/1
Norway							
Oslo SE Ind(2/1/83)	1216.44	1206.55	1207.82	1292.15	18/10	1036.00	10/3
Philippines							
Manila Comp (2/1/85)	2196.48	2284.08	2291.40	2858.12	10/7	2196.48	20/11
Portugal							
BTA (1977)	2456.3	2471.5	2409.4	2811.80	9/1	2458.20	20/11
Singapore							
SES All-S'pore(2/4/75)	510.39	506.84	508.76	535.06	5/1	472.90	23/1
South Africa							
JSE Gold (28/9/78)	1358.0♥	1353.2	1332.3	2023.06	2/1	1258.20	30/10
JSE Indl. (28/9/78)	7715.9♥	7675.4	7673.3	7715.90	20/11	6222.00	31/1
South Korea							
KoreaCompEx(4/1/80)**	931.64	952.36	933.95	1027.37	2/1	847.08	27/5
Spain							
Madrid SE (30/12/85)	302.85	300.12	301.57	318.88	13/9	284.05	23/3
Sweden							
AffarsvarldsGen (1/2/37)	1728.9	1703.8	1697.5	1872.18	19/9	1438.86	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1458.72	1442.85	1437.42	1458.72	20/11	1174.83	13/3
SBC General (1/4/87)	1080.74	1082.51	1080.35	1080.74	20/11	870.58	13/3
Taiwan							
WeightedPr.(30/6/66)**	4585.72	4586.06	4639.28	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET (30/4/75)	1193.43	1198.18	1174.82	1472.04	10/7	1128.89	16/3
Turkey							
Istanbul Comp.(Jan 1986)	42472.3	42833.1	42715.7	54863.90	21/4	24844.31	23/1
WORLD							
MS Capital Int (1/1/70)§	706.9*	705.3	702.8	708.90	20/11	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1446.56	1432.85	1432.37	1480.69	15/9	1222.41	13/3
Euro Top-100 (26/6/90)	1303.59	1294.31	1297.6	1318.88	15/9	1117.34	9/3
JCapeDrgns (31/12/88)	(u)	312.17	313.74†	349.47	14/7	282.07	23/1
Barings Emerg.(7/1/92)	136.86	134.80	133.59	[illegible]	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Nov	1917.0	1885.0	-18.0	1919.0	1882.0	14,263	28,945
Dec	1925.0	1894.0	-18.0	1929.0	1892.0	1,139	21,792
DAX							
Dec	2216.0	2206.0	+8.0	2230.0	2205.5	17,141	-
Mar	2234.0	2227.5	+8.5	2250.0	2227.5	790	-
OMX							
Nov	1364.08	1372.00	+25.75	1372.00	1361.00	5,274	13,610
Dec	1358.00	1382.00	+24.25	1382.00	1371.75	3,088	3,634
SOFFEX							
Dec	3179.0	3186.1	+26.1	3192.5	3179.0	3,513	12,974
Jan.	3186.0	3194.0	+24.0	3189.0	3188.0	81	716

US INDICES

■ RATIOS

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ S&P 500

■ Nikkei 225

■ TOKYO - MOST ACTIVE STOCKS: Monday, November 20, 1995

4 pm close November 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
19	12¼	AAR	0.48	2.6	23	219	18¾	18¼	18¾	+⅛
46⅝	35	AMP	0.92	2.3	20	5063	39½	39¼	39¼	-⅛
80⅝	53¾	AMR			16	4355	70⅜	69	70	+¼
47⅞	35¾	ASA x	1.71	4.4	25	175	38⅝	38⅝	38¾	-⅛
44⅜	30⅝	AbbtL	0.84	2.1	16	6250	41	40½	40⅝	+⅛
18⅞	12	AbitibiPr	0.40	2.5	8	1582	16⅛	15⅞	15⅞	
27⅞	21	ABM Ind	0.80	2.2	15	88	27⅞	26⅞	27⅞	+⅛
17½	13⅞	Acpinvsin			10	114	14⅞	14⅝	14⅞	+⅛
37⅞	21⅞	ACE Ltd	0.58	1.6	8	1062	36	35⅝	36	+⅛
9⅝	8⅝	ACM Gvt In x	0.90	9.7	0	888	9⅜	9½	9⅜	-⅛
7⅞	6½	ACM GvOpp x	0.66	9.1		141	7⅜	7¼	7¼	
7½	5⅞	ACM GvtSp x	0.75	10.7		179	7	6⅞	7	
8⅝	7⅛	ACM GvtSe x	0.90	10.3		224	8⅞	8⅝	8⅝	-⅛
9½	7⅞	ACM Mker x	0.90	10.3		205	8⅞	8⅝	8⅝	
29⅝	10⅝	AcmeClv	0.48	2.2	56	181	23	22	22⅞	-⅞
38⅝	7⅞	Acme Elect			35	215	7⅞	7½	7⅞	+⅛
31½	23⅝	Acordia	0.72	2.6	15	7	27⅝	27⅝	27⅝	
16⅝	10⅝	Acuson			38	369	11¼	11	11	-⅛
19⅝	15⅞	AdamsExpr	0.48	2.6	0	219	18½	18⅝	18⅞	-⅛
36⅞	2⅞	AdvMic			8	5585	21⅞	21⅝	21⅝	-⅛
8⅝	5	Advest Grp	0.16	1.8	12	36	9⅜	9	9	-⅛
27½	15½	Aetna Inc	0.36	0.4	20	353	27	26⅞	27	+⅛
[illegible]	[illegible]	Aegon	1.28	3.1	15	159	[illegible]	41⅝	41⅞	
5⅞	3½	Aerflx			8	216	4½	4⅞	4⅞	
75⅞	46⅝	AetnaL	2.76	3.8	34	3268	73⅞	72⅝	72⅝	-1⅛
44⅝	31⅞	Aflac x	0.52	1.2	12	1183	42⅝	41½	41⅝	-⅛
28⅝	19	Ahmanson x	0.88	3.4	15	1862	26⅝	25⅞	26	-⅛
[illegible]										

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

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- M -

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- N -

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- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

4 pm close November 20

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. [illegible]

FT Free Annual Reports Service [illegible]

AMEX COMPOSITE PRICES

4 pm close November 20

[illegible]

NASDAQ NATIONAL MARKET

4 pm close November 20

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

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- H -

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- S -

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- V -

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- W -

[illegible]

- X - Y - Z -

[illegible]

AMERICA

Dow cracks 5,000 barrier at midsession

Wall Street

Blue chip shares in the Dow Jones Industrial Average edged through the 5,000 level in early afternoon trading yesterday after spending most of the morning moving in a narrow range on either side of Friday's close, *writes Lisa Bransten in New York.*

The Dow first climbed through 5,000 just after 10 am but failed to hold on to that high for the rest of the morning. But it moved more decisively through that psychologically important level just before 1pm, when it Dow registered a gain of 12.65, bringing it to 5,002.60.

Still, there was uncertainty on Wall Street about whether the edgy market would retain its early afternoon highs until the close.

Rising issues in the Dow included Disney, up $1 at $60¼, Eastman Kodak, $1¼ stronger at $70, Texaco, which added $1¼ at $72½ and General Motors, $⅝ stronger at $47⅞.

The Standard & Poor's 500 was lower in early trading, having breached its own psychological barrier of 600 on Friday. By 1 pm it was off 0.53 points at 599.54. The American Stock Exchange composite added 0.52 at 532.48. NYSE volume was 182m shares.

Shares roared higher last week as investors bet on a positive outcome to the budget stalemate and bought shares to cover short positions before Friday's expirations of options on shares and share indices. Therefore analysts did not expect Sunday's announcement, a stop-gap measure to reopen the government, to cause shares to rally.

Technology shares were mixed yesterday with the Nasdaq composite, weighted toward that sector, slipping 0.18 at 1,044.85. The Pacific Stock Exchange technology index shed 0.7 per cent.

Microsoft, the biggest company on the Nasdaq, added $⅝ at $88 and Intel gained $⅜ at $63½, while Apple Computer slipped $½ at $39⅝ and America Online was $¼ lower at $77⅞.

Norand shed $1⅝ or more than 10 per cent to $14 after announcing that it would postpone the shareholders meeting originally set for next month and restate 1994 and 1995 results because of a problem completing this year's audit.

Canada

Toronto overcame early weakness in midday trade, the TSE-300 Composite index rising 2.19 by noon to 4,601.83 in light volume of 23.8m shares.

Analysts noted that the market was unmoved by the resolution of the US budget dispute, while further uncertainty surrounding Quebec's future had tended to keep equities in check.

Canadian National Railway, the first instalment trading on a when-issued basis, gave up an early rise to C$20⅝ to trade C$¼ lower at C$20, but still at a substantial premium to the offer price of C$16½.

CFCF fell C$1⅝ to C$14⅜ after it agreed to sell its CF Cable TV unit to Le Groupe Videotron for $515m.

Brazil gives up 3.1%

Sao Paulo fell 3.1 per cent in midday trade on concerns over the political implications of a possible scandal surrounding a $1.4bn contract for the Amazonian surveillance Sivan radar system.

A presidential aide and the air force minister resigned at the weekend after transcripts were published of a telephone conversation that raised questions about the way that the order had been awarded.

The Bovespa index was down 1,242 at 30,934 by 1 pm, but turnover was thin.

CARACAS pulled back after eight successive rising sessions, and the 19-share index lost 44.06 or 2.4 per cent to 1,823.26.

BUENOS AIRES remained on the upward track after last week's rises, the Merval index adding 3.71 at 425.35 in midday trade in a further positive response to the government's cost-cutting plan.

● Mexico was closed.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1995	% change sterling † Start of 1995	% change in US $ † Start of 1995
Austria	-1.47	-0.08	-13.72	-16.13	-8.72	-7.45
Belgium	+2.02	+3.51	+8.84	+7.86	+18.77	+18.82
Denmark	-0.07	-0.96	+1.12	+0.21	+12.87	+11.97
Finland	-6.44	-10.64	-2.65	+1.23	+15.38	+14.47
France	+2.54	+6.93	-0.90	+1.67	+12.72	+11.83
Germany	+0.85	+0.41	+1.97	+1.83	+13.25	+12.35
Ireland	+3.86	+4.37	+21.37	+20.17	+25.61	+24.62
Italy	+0.67	+1.11	-7.98	-8.23	-5.70	-6.46
Netherlands	+1.41	+1.30	+10.05	+8.71	+20.88	+19.92
Norway	-0.68	-5.14	+4.82	-3.12	+6.67	+5.82
Spain	+1.80	+2.66	+1.24	+6.30	+16.64	+15.72
Sweden	+0.98	-3.84	+15.61	+19.10	+35.94	+34.86
Switzerland	+0.71	+1.04	+20.69	+18.24	+36.30	+37.20
UK	+2.41	+1.52	+14.45	+16.84	+16.84	+15.92
EUROPE	+1.62	+1.54	+8.40	+8.83	+17.36	+16.45
Australia	-0.29	+0.97	+12.12	+11.16	+7.16	+6.32
Hong Kong	-1.82	-7.10	-7.70	+8.70	+8.62	+8.75
Japan	+1.08	-0.53	-5.10	-7.04	-8.57	-9.29
Malaysia	-1.58	-9.24	-19.20	-11.65	-10.14	-10.85
New Zealand	-2.77	-3.26	+10.74	+10.08	+12.33	+11.45
Singapore	+0.22	-2.16	-11.59	-5.11	-1.20	-1.98
Canada	+0.32	+3.83	+10.59	+8.26	+13.15	+12.25
USA	+1.42	+2.11	+29.76	+31.00	+32.05	+31.00
Mexico	+1.44	+0.04	-3.13	-3.66	-38.09	-38.58
South Africa	+0.06	+2.96	+15.24	-0.40	+12.17	+11.26
WORLD INDEX	+1.23	+0.90	+10.25	+10.88	+13.19	+12.30

† Based on November 17 1995.

EUROPE

Early dollar drives Zurich to a new 1995 high

Early strength in the dollar *took ZURICH to another high* for the year. The SMI index moved ahead 29.7 to 3,182.2, edging towards its all-time peak of 3,190.4 set on January 31, 1994. Nestlé rose SFr12 to SFr1,227 on the higher dollar, and renewed interest ahead of 10-month sales figures due later in the week.

In the chemical and pharmaceutical sector, Roche certificates rose SFr80 to an all-time high of SFr8,575. Ciba was up SFr18 to SFr1,018 and Sandoz gained SFr15 at SFr973. SMH, up SFr14 at SFr663, saw a technical rally after sharp losses last week when UBS downgraded its 1995 profits forecast to SFr272m from SFr320m.

FRANKFURT came off its highs as the dollar and the Dow lost some of their enthusiasm in the European afternoon, the Dax index closing 7.42 ahead at an Ibis-indicated 2,204.01, after 2,224.11.

Turnover was DM1bn lower at DM6.6bn. Cyclicals rose on the dollar but Thyssen had added spice; its telecoms unit raised DM1bn in a share sale, and the group linked with Bellsouth of the US to bid for 49.9 per cent of DBKom, the telecoms unit of Deutsche Bahn, the German railway. Thyssen rose DM6.80 to DM262.50.

PARIS took another breather, the CAC-40 index easing 9.12 to 1,881.40. Financials lost more than average after last week's rate cut gains, Paribas falling FFr9.50 to FFr285.60 and Axa FFr5.60 to FFr311.60.

Accor dropped FFr22 to FFr606 after it said that Europcar, the joint venture with Volkswagen, was not working out; the hotels and tourism group maintained that it was not worried by the possibility that Suez might sell its 12 per cent Accor stake.

On the plus side, Elf-Aquitaine rose FFr4.80 to FFr352.80 after Bear Stearns tipped it among a number of international oil stocks in New York.

AMSTERDAM's AEX index closed 3.10 higher at 463.51, with the weighty Royal Dutch, Fl 3 up at Fl 204.80, continuing an earlier advance on last week's upbeat analysts' presentation; however, there was a New York influence, the oil giant getting a favourable nod from Salomon Brothers.

MADRID analysed the Catalan election result for favourable market portents but, in the end, individual issues seemed to be more important as the general index moved up 2.53 to 302.65.

In line with other oil issues, Repsol was a big winner, rising Pta80 to Pta3,790, although ABN-Amro Hoare Govett recommended a sell, forecasting reduced profits from its chemicals division. On the downside, Amper, the telecoms engineer, fell Pta145 to Pta1,455 for a two-day drop of 14.4 per cent, although analysts put it on prospective p/e ratios of only 5.6 for 1996 and 4.9 for 1997.

MILAN saw an early, upbeat mood *evaporate on rumours* that today's inflation figures would be worse than expected. The Comit index registered a rise of 4.39 to 577.52, while the real-time Mibtel index turned back from a high of 9,266 to close 10 weaker at 9,149.

Ferruzzi finished L61 down at L1,132 and Montedison was off L9 at L1,009 as a positive early response to Friday's presentation to financial analysts proved shortlived. Gemina shed L26.5 to L638 ahead of the company's news conference on its financial situation.

TEL AVIV jumped for the third consecutive day, by 1.9 per cent as the shekel weakened against the dollar following rumours that Mr Shimon Peres, the acting prime minister, would cut the budget, lower interest rates and devalue after he formed a new government. The Mishtanim index rose 3.56 to 192.74.

STOCKHOLM put together substantial gains in Ericsson B, SKr6.50 higher at SKr155 on renewed support from American investors; in Volvo B, SKr4 higher at SKr139.50 on the cyclicals' response to the dollar; and in banks, which rose 2.4 per cent as bond yields fell. The Affärsvärlden General index added 25.1 or 1.5 per cent at 1,728.9.

The insurer Trygg-Hansa closed SKr3 higher at SKr98.50 after it received permission from the Swedish financial authorities to trade in Stockholm-listed securities with effect from tomorrow week.

HELSINKI saw Nokia A up FM7 at FM230 on the dollar, a surprise Bank of Finland tender rate cut, and speculation in forestries where Metsa-Serla announced a news conference after hours. The forestry sector rose 2 per cent, in line with a Hex index advance of 36.94 to 1,858.38.

COPENHAGEN's KFX index firmed 0.53 to 101.67, but East Asiatic dropped DKr29 or more than 20 per cent to a new 1995 low of DKr110 after the shipping and wholesale group downgraded its current year forecast to an unspecified figure below 1994's DKr136m net.

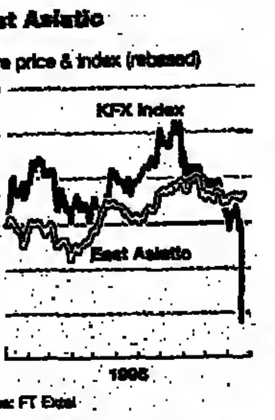
WARSAW tumbled 3.8 per cent as an uneasy calm settled on the country after Mr Aleksander Kwasniewski's defeat of the incumbent Mr Lech Walesa in Sunday's presidential election. The Wig index lost 309.7 to 7,838.1 as one commentator said that Mr Kwasniewski's victory had transformed the future into "a great unknown". Turnover surged 66 per cent to 69.8m zlotys from recent low levels, prompting some analysts to forecast that the market had further to fall in coming sessions.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices

Nov 20							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1448.15	1448.37	1448.27	1447.52	1447.89	1447.00	1447.16	1446.56
FT-SE Eurotrack 200	1555.46	1555.35	1554.58	1555.88	1554.86	1553.58	1553.43	1552.88
	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13			
FT-SE Eurotrack 100	1432.65	1432.37	1412.62	1414.40	1411.35			
FT-SE Eurotrack 200	1541.25	1542.81	1522.89	1524.10	1521.90			

Base 1000 (26/10/90); Highday: 100 - 1448.88; 200 - 1557.22 Lowday: 100 - 1445.78 200 - 1550.81 † Partial



ASIA PACIFIC

Nikkei at six-week high after bad debt plan reports

Tokyo

Weekend reports that the Japanese Ministry of Finance would draft a plan to clear the bad debts of the country's housing loan companies prompted buying in the banking sector; the Nikkei average rose 1.3 per cent to a six-week high, *writes Emiko Terazono in Tokyo.*

The 225 index closed 232.66 higher at 18,388.62, rising for the third straight session; it moved between 18,189.02 and 18,445.00, with buying centred on banks, large-capital steels and speculative issues. The surge on Wall Street on Friday boosted investor confidence, while the compromise over the US budget between President Bill Clinton and Congress supported the dollar.

Volume jumped from 356m *shares to 421m. Activity was* supported by heavy cross trading by investors looking to secure profits on their portfolios. *The Topix index of all first* section stocks climbed 17.12 to 1,456.38 and the Nikkei 300 moved ahead 3.44 to 273.26. Advances led declines by 760 to 295, with 159 issues unchanged.

In London the ISE/Nikkei 50 index gained 3.36 at 1,243.82.

Overseas investors, underweight in the banking sector, placed heavy buying orders following a report about the government's draft solution for the jusen, or housing loan companies. A leading business paper reported on Sunday that the founder banks of the housing loan companies would put up a total of Y1,000bn to set up a body to purchase the bad loans.

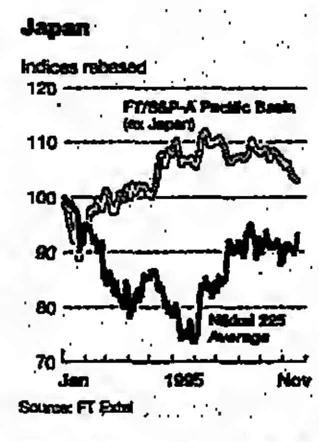
Mr Paul Heaton, banking analyst at Deutsche Morgan Grenfell, commented: "The plan to clear up the housing loan bad debts is a very positive development for the economy. There may still be some further debate as to the size of respective contributions from the banks and agricultural co-operatives, but the ground rules are now set."

Among banking shares, Fuji Bank rose Y50 to Y2,070 and Dai-Ichi Kangyo Bank Y50 to Y1,870. Brokerage stocks also gained, Nomura Securities adding Y60 at Y1,930.

Foreign investors bought low priced large-capital issues. Nippon Steel, the day's most active stock, hardened Y3 to Y353 and NKK Y12 to Y275.

Speculative favourites were stronger, with Takaoka Electric surging Y100 to Y718 and Nihon Nohyaku Y100 to Y889.

In Osaka, the OSE average put on 147.75 at 19,625.41 in volume of 41.1m shares.



Roundup

A 3 per cent drop took MANILA through two key support levels, 2,250 and 2,200, as the composite index shed 67.60 to a new 1995 low of 2,196.48. Volume expanded from 2.18bn shares to 2.81bn, but turnover eased from 1.26bn pesos to 1.245bn.

The market, now down nearly 26 per cent from its July peak, continued to be depressed by inflation and higher interest rates.

SEOUL fell 1.6 per cent as investors went on a selling spree on worries that the market's weakness might deepen. The composite index lost 14.71 to 931.64 in volume of just 14.2m shares, this year's second-lowest level.

Declines overwhelmed rises by 775 to 85. Banks and securities firms were the biggest losers as individual investors sold. Seoulbank dipped Won140 to Won7,170, Commercial Bank of Korea by Won250 to Won8,200 and Kyungki Bank by Won210 to Won8,950.

KARACHI, virtually unmoved on Sunday by the weekend bombing of the Egyptian embassy in Islamabad, saw selected blue chips sold *yesterday after global depositary receipts (GDRs) in Pakis*tan Telecommunication Corporation slipped abroad.

The KSE 100 index fell 17.39 or 1.2 per cent to 1,455.41, with PTC off Rs1.25 at Rs27.30.

HONG KONG was sharply higher on a round of late buying but trading remained thin in the absence of foreign participation. The Hang Seng index rose 86.01 to 9,373.91 in turnover that fell to HK$2.6bn.

New World Development advanced HK$1.10 or 3.8 per cent to HK$30.20 as investment funds picked up blue-chip property counters after the market's recent weakness.

SINGAPORE's attention was on speculative issues and second liners and the Straits Times Industrial index picked up 9.47 to 2,086.88.

The recent takeover target United Pulp and Paper topped the actives list with 14.3m *shares traded and rose 36 cents* to a year's high of S$2.70.

KUALA LUMPUR edged higher after two days of falls, the composite index improving 4.89 to 893.90.

MAS, the national carrier, firmed 25 cents to M$7.65 due to robust interim results. United Engineers stayed at M$14.20 in spite of reports that its highway subsidiary would win approval for higher tolls. Maybank, which gained from light local fund buying, was 40 cents up at M$18.60.

TAIPEI was led down by cements ahead of the December 2 legislative elections. The weighted index fell 17.77 to 4,565.72 in turnover of T$12.5bn, the lowest since the T$10.4bn of October 9, 1993.

SYDNEY did not trust the Wall Street rally and the All Ordinaries index put on just 6.7 at 2,126.40. News Corp, however, was helped by Wall Street, as well as the closure of Today, the UK tabloid, and the decision to raise the week-day cover price of The Times; the shares rose 13 cents to A$6.64.

WELLINGTON demonstrated the potential weight of dividends as a number of stocks, including Telecom, went ex dividend. The NZSE-40 gross index, which adjusts for dividends, ended 13.73 higher at 2,629.15, while the NZSE-40 Capital index, which does not, slipped 7.67 to 2,147.90.

Telecom, having gone ex a 17-cent dividend, ended down 17 cents at NZ$6.26 but steady on an adjusted basis.

SHANGHAI's hard currency B share index finished higher on a technical rebound supported by rises in Pudong stocks, but trading was thin with the market pondering the possible negative impact of China's imminent import tariff cuts. The index rose 0.236 to 50.709 but SHENZHEN's B index eased 0.49 to 64.48.

S African industrials at peak

Johannesburg's overall and industrial indices hit record highs, propelled by Wall Street's early performance, while golds held their own on a steady but dull bullion price.

The overall index ended 31.7 ahead at 6,052.8, industrials surged 40.5 to 7,715.9 and golds put on 4.8 at 1,358.0.

Rembrandt finished 25 cents firmer at R32.75, SAB advanced R1.75 to R121 and Anglos moved forward 50 cents to R217.50. De Beers closed unchanged at R108.75.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 17 1995 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 16 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (82)	182.48	0.9	174.31	117.84	133.27	183.59	0.6	4.01	180.80	172.22	116.82	132.49	182.81	161.01	167.95	184.99
Austria (27)	169.12	0.2	161.55	109.31	123.52	123.45	-0.1	1.36	168.80	160.79	109.07	123.69	123.69	199.28	167.48	177.92
Belgium (35)	200.13	0.7	191.17	129.35	146.16	142.83	0.4	3.67	198.73	189.30	128.41	145.63	142.13	201.12	164.78	186.86
Brazil (28)	132.44	1.2	126.51	85.60	96.73	234.40	1.1	1.79	130.81	124.61	84.52	95.86	231.78	184.92	86.06	184.92
Canada (100)	145.24	0.7	138.74	93.88	106.08	142.31	0.6	2.59	144.31	137.46	93.26	105.73	141.52	150.83	121.81	130.31
Denmark (33)	281.96	0.6	269.34	182.24	205.93	208.85	0.2	1.55	280.37	267.07	181.16	205.45	208.34	295.99	236.81	250.88
Finland (25)	212.87	-1.1	203.34	137.58	155.46	187.25	-1.5	1.71	215.27	205.06	139.10	157.75	190.09	278.11	171.12	193.60
France (100)	182.90	-0.4	174.71	118.21	133.58	139.19	-0.6	3.15	183.65	174.94	118.66	134.57	139.97	191.17	157.79	168.37
Germany (59)	161.01	0.3	153.80	104.07	117.59	117.59	0.0	2.04	160.46	152.85	103.68	117.58	117.59	167.74	135.39	143.29
Hong Kong (55)	354.87	-0.5	338.79	229.24	259.03	352.14	-0.5	4.18	356.50	339.59	230.35	261.24	354.01	359.39	277.40	384.34
Ireland (16)	257.01	0.4	245.50	166.12	187.71	226.12	0.5	3.37	255.97	243.83	165.39	187.57	225.09	257.01	195.34	204.88
Italy (58)	70.43	0.1	67.28	45.52	51.44	83.71	0.2	1.80	70.34	67.00	45.45	51.54	83.53	82.71	65.45	76.70
Japan (483)	142.36	1.1	135.99	92.01	103.98	92.01	1.1	0.83	140.89	134.21	91.03	103.24	91.03	164.82	136.95	156.27
Malaysia (108)	427.35	-0.7	408.23	276.22	312.12	416.52	-0.8	1.96	430.23	409.82	277.98	315.27	419.66	561.98	398.16	521.86
Mexico (18)	869.62	4.0	830.97	562.18	635.26	7346.58	3.6	1.69	838.78	797.09	540.68	613.16	7090.45	2125.20	647.31	2009.77
Netherland (19)	260.08	0.7	248.44	168.10	189.95	188.73	0.3	3.50	258.27	246.02	166.88	189.26	188.13	263.99	207.50	214.31
New Zealand (14)	78.52	0.1	75.00	50.75	57.34	54.33	0.0	4.50	78.43	74.71	50.68	57.48	54.32	86.49	69.56	74.81
Norway (33)	225.58	0.3	215.48	145.80	164.75	189.60	-0.1	2.21	224.82	214.16	145.27	164.75	189.79	243.79	192.92	198.65
Singapore (44)	365.65	0.1	349.29	236.34	267.06	237.84	0.0	1.70	365.37	348.05	236.09	267.75	237.81	414.26	313.94	396.70
South Africa (45)	374.69	0.3	357.91	242.17	273.65	298.70	0.4	3.94	373.42	355.71	241.28	273.64	297.57	378.45	281.08	366.14
Spain (38)	152.70	-0.2	145.86	98.70	111.52	139.88	-0.4	4.07	153.05	145.79	98.89	112.15	140.48	160.51	124.10	141.39
Sweden (47)	311.68	0.9	297.73	201.45	227.64	302.93	0.1	1.98	308.74	294.10	199.50	226.25	302.54	320.43	225.80	240.70
Switzerland (41)	226.64	0.5	216.49	146.48	165.52	159.80	0.2	1.66	225.41	214.72	145.65	165.15	159.48	226.64	158.38	184.19
Thailand (46)	148.64	1.3	141.98	96.07	108.56	145.03	1.3	2.81	146.74	139.78	94.82	107.53	143.21	184.55	130.15	174.66
United Kingdom (206)	225.84	-0.3	215.73	145.97	164.94	215.73	0.0	4.03	226.52	215.77	146.37	165.99	215.77	227.31	187.07	200.16
USA (504)	245.97	0.5	234.95	158.98	179.64	245.97	0.5	2.40	244.68	233.07	158.10	179.30	244.68	245.97	182.33	189.56
Americas (850)	223.85	0.6	213.83	144.68	163.49	188.10	0.6	2.40	222.61	212.05	143.84	163.12	187.07	223.85	170.66	177.20
Europe (737)	196.75	0.1	187.94	127.17	143.70	165.13	0.0	3.07	196.65	187.32	127.07	144.10	165.18	199.02	163.04	171.86
Nordic (138)	278.74	0.5	266.26	180.16	203.58	232.60	-0.1	1.88	277.34	264.18	179.20	203.23	232.69	295.02	215.79	229.75
Pacific Basin (832)	151.89	0.9	145.10	98.18	110.94	101.64	0.9	1.29	150.59	143.45	97.31	110.36	100.77	171.97	145.93	166.71
Euro-Pacific (1569)	170.50	0.5	162.66	110.20	124.52	125.60	0.4	2.15	169.70	161.64	109.65	124.35	125.06	178.33	154.73	168.20
North America (604)	239.74	0.5	229.00	154.95	175.09	239.03	0.5	2.41	238.48	227.15	154.09	174.75	237.78	239.74	178.86	185.86
Europe Ex. UK (531)	176.73	0.2	168.82	114.23	129.07	137.88	-0.1	2.53	176.28	167.92	113.90	129.16	137.88	179.48	148.45	153.08
Pacific Ex. Japan (349)	243.67	0.6	232.76	157.50	177.97	214.78	-0.1	3.44	243.59	232.04	157.40	178.50	214.99	258.72	211.19	258.56
World Ex. US (1760)	171.50	0.5	163.82	110.84	125.25	129.23	0.5	2.16	170.65	162.56	110.27	125.05	128.65	178.73	155.42	170.05
World Ex. UK (2058)	161.33	0.6	182.77	123.67	139.74	157.63	0.5	2.09	190.20	181.16	122.90	139.37	156.79	191.33	163.46	173.11
World Ex. Japan (1781)	223.26	0.3	213.26	144.30	163.05	207.99	0.3	2.74	222.51	211.96	143.77	163.05	207.36	223.26	178.95	187.59
The World Index (2264)	194.35	0.5	185.65	125.62	141.94	162.70	0.5	2.26	193.37	184.20	124.96	141.70	161.92	194.35	165.92	175.45

 CONSTITUENT CHANGE WITH EFFECT 27/11/95: Addition: Canadian National Railway (Canada) (Medium-Small Cap Index). Latest prices were unavailable for this edition.

HUNGARY

Chill wind on the River Danube

Anthony Robinson and Virginia Marsh say Hungarians are facing the harsh truth that they must stop living beyond their economic means

It has been a year for shedding illusions and slaughtering sacred cows. The "goulash communism" which made Hungary a byword for relative prosperity under the old regime was financed by foreign debt. The first democratically-elected government inherited a bloated social security system but lacked the strength to cut it. But earlier this year a socialist-led government introduced a tough austerity package which obliged Hungarians to face the harsh truth; for decades they lived beyond Hungary's means.

This is a bitter pill for millions of Hungarians who live on or around an average national income of $300 a month and for whom the last five years brought unprecedented economic change and social insecurity.

Yet they have been obliged to accept an 11 per cent cut in real wages this year, and another 3 to 4 per cent decline is planned for 1996. This follows an emergency economic, financial and exchange rate package introduced in March.

Its aim was to neutralise a substantial rise in real incomes prior to the 1994 elections, reverse a dangerous widening of the trade and current account deficits and head off the risk of a potential domestic and foreign debt trap arising from inflationary pressures and rising interest rates.

By autumn the statistics were beginning to show that the politically fraught package was having the desired effect. Exports in particular responded well to an effective 21 per cent devaluation over the first half of the year. Higher investment has also helped to compensate for lower consumer demand, which in turn has led to a slackening in the increase in imports and and an easing in pressures on the domestic economy. Inflation and interest rates have started to decline.

But the longer term success or failure of the austerity package is still in question. The outcome depends on the willingness of labour and the trade unions to accept the one-off cut in living standards imposed by the March package, and on the ability of a Socialist-Free Democratic coalition government, led by Mr Gyula Horn, the Socialist Party prime minister, to follow up with a radical reform of the entire social security and health system. These promised reforms are the key element in a strategy to cut government spending, lower interest rates, and hence reduce the cost of financing a near-crippling level of domestic and foreign debt.

A recent OECD report on social and labour market policies in Hungary highlighted the need to reform an old age and disability pension system which accounted for 11 per cent of GDP in 1993, and to revise a family allowance system which accounted for another 5 per cent.

In the March package the government cut some social payments, introduced income-related fees for some previously free educational and health services and underlined its commitment to broader structural reforms which will target payments and services on the most needy elements of the population.

Some measures were subsequently struck out by tha constitutional court, which argued that cuts in benefits announced with so much speed and such little warning in March were unconstitutional and badly drafted.

The 1996 budget, which is being drawn up to conform with targets agreed with the International Monetary Fund, including a budget deficit set to fall below 4 per cent of GDP, compared with 9.5 per cent in 1994, will restore the income lost by the constitutional court ruling. But it will not soothe the ruffled feathers of a trade union movement which is at its strongest in the still state-controlled areas of the economy.

Civil servants, teachers, health-workers and other public sector workers have seen their incomes and social prestige fall since the collapse of socialism. But their numbers have continued to increase. Crucially, it was their votes which brought the socialists back to power in 1994.

Mr Sandor Nagy, Hungary's main trade union leader, helped to marshal votes for the socialist cause.

Now, after retiring from the union movement, he stands as a somewhat ambiguous figure, uncertain whether to accept a senior government post, if one were offered, or to stake out his position as a future alternative leader of the left.

Mr Horn, meanwhile, appears to be willing to face up to his internal party critics and persevere with structural reforms and privatisation in the hope that these measures will transform the economy and start to pay political dividends before the next elections in 1998.

"To appreciate what we have done you must realise that we have abolished what Hungarians grew up to accept as sacred rights," says Mr Horn, a veteran reform communist who led his revamped Socialist party to victory in the 1994 elections but is now widely accused of adopting "Thatcherite" anti-welfare policies and rapid privatisation.

Mr Lajos Bokros, the former banker who became finance minister in March when Mr Gyorgy Suranyi was also appointed to a key financial role as governor of the central bank, is even more blunt. "The historic task of the Socialist government is to roll back the frontiers of the welfare state," he says.

A reduction of the state's role in the economy and society is not what many voters thought they were voting for in last year's elections. But Mr Horn points out that economic and social reform was put on the agenda by Hungary's reform communists before the collapse of Soviet hegemony over central Europe.

"We realised that the standard of living was being artificially supported by foreign loans and initiated the economic reforms which would have allowed Hungary to pay its way," he said in an interview.

After tha collapse of communism, power passed into the hands of the conservative Hungarian Democratic Forum government in 1990. But a government attacked by the left for being hard hearted and uncaring was actually too inhibited by such criticism to make the cuts in social welfare, or proceed sufficiently quickly with privatisation to cut the size and cost of the Hungarian public sector.

A difficult year lies ahead, but there is light at tha end of the tunnel. Two decades of foreign borrowing have saddled Hungary with the highest per capita debt in the former communist world. At the same time it acquired a formidable repntation for sophisticated debt management and excellent contacts in financial markets.

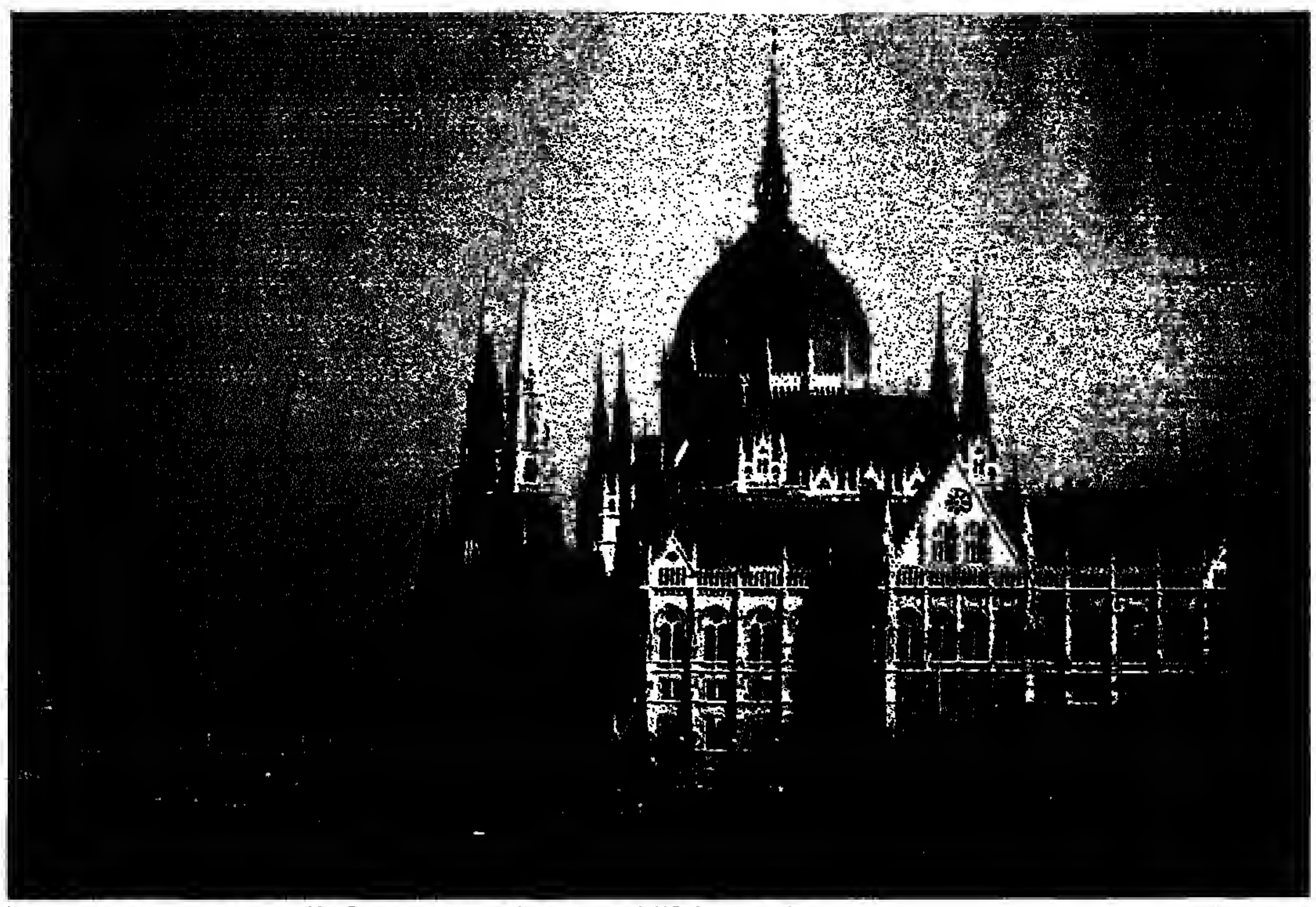
Familiarity with western financial markets, and nearly two decades of cautious market-oriented reforms, gave Hungary a significant advantage over other former communist countries in the search for foreign equity capital to modernise the economy and re-integrate Hungary into world markets. As a result over $10bn in private equity investment has flowed into Hungary over the last five years, nearly half the estimated $22bn which has come into the region since 1990.

More than 30 of the top 50 multinational companies have made investments here. Some, such as the US General Electric corporation, which took over Tungsram and chose Hungary as a base for its global electric light manufacturing activity, have also spotted the opportunity to make the country a base for research and development work. German companies, such as Audi, assemble high tech components in state-of-the-art factories in western Hungary, able to run 24 hours a day seven days a week, and staffed by highly trained engineers and technicians.

Thanks to such investment, much of it on greenfield sites, and to big structural changes in former state-owned companies privatised by direct sale to strategic investors, Hungary's industry has undergone significant change at the micro-economic level.

Prodnctivity in industry is estimated to have risen around 50 per cent over the last three years through the closure or revamping of former state-owned lossmakers and the efficiency gains from new technology and managerial methods. The partially privatised telephone system is improving by the month and new motorways ring the capital Budapest and connect it with the Austrian capital, Vienna, 300km to the west.

This year's painful shift in resources from personal disposable incomes to the state treasury and from domestic consumption to exports is already showing through in higher exports and lower inflation. Investment is rising and economic growth is continuing. If the government keeps its nerve, and the unions keep their cool, Hungary could be well on the way to sustainable growth before next year is out.



The parliament building on the bank of the River Danube, where the Hapsburg splendour of old Budapest still shines

Picture: Victor Murat

L to r: Bank's Gyorgy Suranyi, Premier Gyula Horn, minister Lajos Bokros

The reforming troika

Two like-minded men, who have known each other since school days, put together the March economic package and agreed to accept responsibility for its implementation.

Working closely together, Lajos Bokros at the finance ministry and Gyorgy Suranyi as president of the Hungarian National Bank have master-minded an economic and financial turnaround, surprising even themselves by its speed and scope.

While Mr Suranyi enjoys relative anonymity in his apolitical central banker's job, Mr Bokros has become the lightning rod for Socialist Party voters who feel betrayed by tha government they brought to power by a landslide in 1994.

Before taking on his new job he used to write learned critiques of economic policy under the pen name "David Ricardo", borrowed from the 19th century liberal economist. Putting his theories into practice is a fulfilling but stressful operation.

"I'm the most hated man in Hungary," he admits with a deprecating shrug. But he has learned to be slightly less confrontational after the storm caused by his candid expressed declaration that "the historic task of the socialist government is to roll back the frontiers of the welfare etate".

Mr Suranyi is also no stranger to the world of political intrigue. Three years ago, he was removed as central bank governor by the Hungarian Democratic Forum government for his independent views just before introduction of a new banking law giving Bundesbank-like independence to the central bank. He went on to become the chairman of one of Hungary's most profitable commercial banks, the Central European International Bank. Widely recognised as a perceptive macro-economic and financial analyst he now also has the commercial banking experience to back his international standing as a first class central banker.

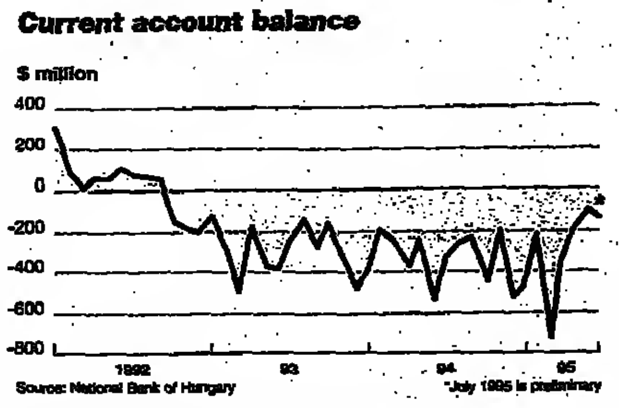
Gyula Horn has already demonstrated his willingness to defend their actions against left wing traditionalist critics in his party at the risk of provoking a split. But with a wave of public sector strikes in the offing, supporters and critics alike are still waiting to see whether he is prepared to take the political initiative and actively sell to Hungarians at large tha need for the tough policies now in force.

■ **Economy overview:** by Anthony Robinson

Sacrifice wins global respect

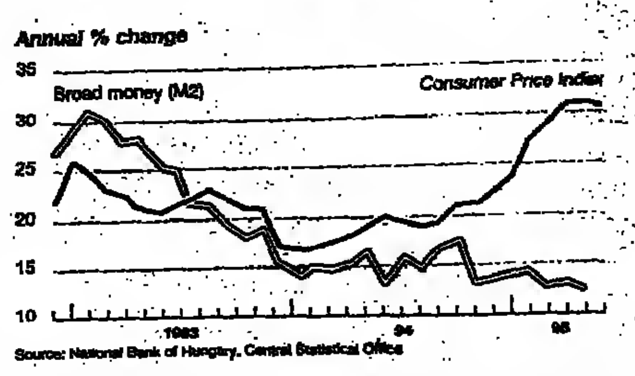
Hungary's overseas standing has been enhanced by this year's robust austerity package

Current account balance



Source: National Bank of Hungary *July 1995 is preliminary

Money growth and inflation



Source: National Bank of Hungary, Central Statistical Office

The good news about the Hungarian economy is that five years of largescala foreign investment, privatisation and the painful run-down of inappropriate beavy industry have led to a big rise in micro-economic efficiency.

Until the introduction of an austerity package in March, howevar, the international financial institutions were looking at other indices showing the economy as a whole in macro-economic imbalance.

Mr Gyorgy Suranyi, president of the National Bank of Hungary, recalls that the budget deficit was running at nearly 10 per cent of GDP on an annualised basis over the first quarter of this year while the forint was clearly over-valued and interest rates and inflation were rising strongly. Importers were building up stockpiles in anticipation of devaluation while exporters were unable to take full advantage of buoyant world trade and the recovery in EU markets. As a consequence the current account deficit of the balance of payments rose to $1.4bn in the first quarter of 1995 following an already unsustainable $3.9bn in 1994.

With the Mexican financial melt-down making global markets nervous, Hungary, with a gross foreign debt of $32bn and net debt of $22bn for a population of only 10m, was close to an economic and financial crisis. The sense of impending disaster was compounded by mishandling of the planned privatisation of the HungarHotel state hotel chain at the end of last year and intra-governmental feuding. This culminated in the resignation of the monetarist finance minister, Mr Laszlo Bekesi, and the government's inability to fill the chairmanship of the central bank.

What happened next was a textbook example of how to turn around a small, compact economy and liberate it from the shackles imposed by a bloated public sector, an over-valued exchange rate and punitive interest rates caused by heavy government borrowing.

On March 20, Mr Lajos Bokros, the new finance minister, came out with an austerity package closely co-ordinated with the central bank and aimed at tackling the domestic and foreign payments deficits.

Domestically, the "Bokros package" aimed to reduce the budget deficit from 9.5 per cent of GDP in 1994 to under 4 per cent in 1996 by slashing Ft150bn from government spending in 1995 and raising revenue from new social security charges and speeding up privatisation. Internationally, the packaga aimed to raise competitiveness and redress the payments deficit through a nine per cent devaluation of the forint, followed by monthly "crawling peg" adjustments to the exchange rate, and an 8 per cent import surcharge.

The package demanded an 11 per cent cut in real incomes in 1995, and a smaller 3 per cent drop in 1996. The cut in real incomes has been achieved through higher prices and wage restraint. The effect can be seen most clearly in a seven per cent drop in the volume of retail sales over the first half of this year. Nominal wages rose around 18 per cent over the first eight months while inflation, measured by the consumer price index, peaked at over 31 per cent in June before starting what is expected to be an accelerating and sustained decline over the next two years.

The surge in inflation aliminated the wage gains accumulated in the run-up to the 1994 elections. The jump in prices was fuelled partly by sharply higher energy prices imposed at the start of the year as an essential prerequisite for the planned privatisation of the energy utilities. A further increase is due in early 1996.

The longer term benefits of the austerity package will only become clear when lower inflation cuts the cost of servicing a national debt which threatened to push the country into a debt trap. Mr Suranyi expects inflation on an annualised basis to drop to 16 per cent in 1996 from 29 per cent in 1995. Prime minister Horn, looking to the election year of 1998, hopes that by then inflation will be down to single digits, the budget deficit will be under 3 per cent of GDP and unemployment, currently over 10 per cent, will also be in single figures. If all goes to plan the economy should then be 85 per cent privatised, compared with current 55 per cent.

Already, however, despite much grumbling within the Socialist Party and the trade union movement, the March package is working even faster than bad been hoped. Resources bave been shifted from consumption to investment and exports without causing a recession. The economy should show 2.5 per cent GDP growth this year and "at least 2 per cent in 1996", according to Mr Horn.

Inflation, which peaked at 31.2 per cent in July, fell to 28.8 per cent year on year in September which also saw the best foreign trade performance for three years. Exports rose to $1.08bn in September from $1.02bn in August while imports fell to $1.12bn from $1.16bn to give a monthly trade deficit of $39m compared with $140m in August. Over the first three quarters of this year exports rose by $1.37bn, or 19 per cent, to $8.8bn while while imports increased by just over 10 per cent to $11.2bn.

The EU, which takes 64 per cent of Hungary's exports, remains by far the largest trading partner with foreign owned plants, such as the Dm300m Audi engine assembly plant at Gyor in western Hungary, functioning as low cost production sites within a few hundred kilometres of main plants in Germany, and frequently within 100km of parent plants in neighbouring Austria.

Recent months, however, have seen more trade with former Comecon markets, partly reflecting grain sales to Russia.

■ **Banking:** by Virginia Marsh

Old monoliths are shaken to the foundations

The banks are feeling the full force of the government's tough policies

Hungary's largest state banks were technically insolvent three years ago and only government bailouts worth $3bn – equivalent to around seven per cent of last year's gross domestic product – saved them.

However, it was not until this year, under the new government, that many of the so-called "consolidated" banks started to restructure their operations in earnest. The state also began to pursue bank privatisation with more determination.

"The [former] government threw a lot of money at the banks without having a clear strategy for the sector or for its eventual privatisation," says a western banker. "It often failed to change top management and several banks continued to be badly run and to repeat the same mistakes."

> There are calls for temporary bans on licences for foreign banks

Mr Andras Simor, managing director of Creditanstalt Securities Budapest, adds that the cost of bank consolidation, together with interest payments on government debt, had been the main causes behind Hungary's large budget deficits in recent years. "I sincerely hope bank consolidation will never happen again," he says.

Now, however, Budapest Bank, one of the big four state commercial banks, is close to privatisation while another, Magyar Hitel Bank (MHB), the credit bank, is undergoing radical restructuring under a new management installed on March 1.

General Electric Capital Services, a wholly owned subsidiary of General Electric of the US, one of the largest foreign investors in Hungary, last month signed a memorandum of understanding to buy a majority stake in Budapest Bank. GE Capital, a rapidly expanding financial services company specialising in retail, leasing and credit and debit card businesses, is conducting due diligence at present with a view to closing a deal before the end of the year.

In spite of efforts to sell off several banks, the only other large banks to undergo partial privatisation in the past 18 months were Orszagos Takarekpentar es Kereskedelmi Bank (OTP), the national savings bank, and Magyar Kulkereskedelmi Bank, the foreign trade bank.

In July, the state raised nearly $90m from the sale to institutional and local investors of a 33.4 per cent stake in OTP, by far Hungary's largest bank, through an international private placement and a domestic offering. The bank, whose assets make up around 31 per cent of the total assets of the domestic banking system, has a near monopoly in some areas of retail banking and a branch network larger than its five nearest competitors combined.

MKB, on the other hand, was sold to strategic partners. Last year, the privatisation authorities sold a 25 per cent stake and management control of MKB to Bayerische Landesbank. The bank is now a little over 50 per cent privately-owned with the European Bank for Reconstruction and Development, which holds a 17 per cent stake, the other major shareholder.

Other banks, however, are proving difficult to sell and this has renewed calls for the state to declare a temporary moratorium on the granting of new licenses to foreign banks. Many officials at the state banks argue that this would encourage foreign banks to purchase local banks in order to enter the Hungarian market.

Leading international banks, however, already have a strong presence on the local market and are behind much of the financial sector's rapid growth of recent years. Around half of the 40 or so commercial banks operating in Hungary, a country of 10.5m, are foreign or foreign-owned while the number employed in the financial sector has risen tenfold to around 200,000 since the late 1980s. A further 20 foreign banks and financial institutions have representative offices.

Creditanstalt, Austria's second largest bank, already one of the biggest foreign participants on the local market, has recently announced ambitious expansion plans. The bank, which has expanded rapidly into eastern Europe, plans to invest a further ASch350m to add another 15 branches to the five it already operates and to increase staff by 200 to 550.

"The share of the joint venture or foreign banks is growing fast and a large part of assets in the banking sector are now controlled by solid, well-managed majority foreign-owned banks," says Mr Gyorgy Suranyi, who left the commercial banking sector to become central bank president in March.

He says the growth of such banks has underpinned the stability of the financial sector and reduced the importance of the large state banks.

"The market share of the consolidated banks was 40 per cent three years ago. Now it is less than 20 per cent. Even if some of these banks are still not to good shape their importance is clearly no longer so great," he says. The performance and quality of Budapest Bank has improved tremendously, he adds, while MHB can hopefully be privatised once restructured.

> Stability has been helped by the success of foreign or joint venture banks

Mr Zsigmond Jarai, who became chief executive of MHB in March after spending six years with the HongKong Shanghai Bank group, hopes to turn around the loss-making bank and create a modern electronic retail bank. He has separated the bad part of the bank, which lost MHB around Ft7.5bn last year, and begun to liquidate its assets. He has

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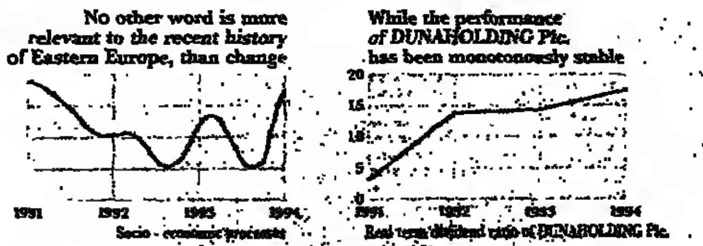
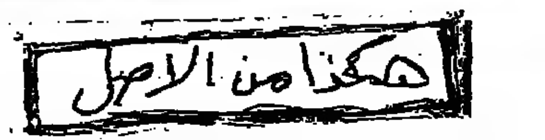




■ **Privatisation:** by Virginia Marsh

A timetable worthy of Lady Thatcher

Privatisation is being pushed ahead with a Thatcherite sense of urgency

Hungary's Socialist-led government has Thatcherite ambitions when it comes to privatisation. It has given itself the historic task of selling off most of the country's utilities and completing privatisation over the next two years – a timetable that would be considered highly ambitious by any western government.

"We want to finish privatisation by the end of 1997. The dominance of private property in the economy should reach 80-85 per cent by then. Today it is 55 per cent," says Mr Gyula Horn, the prime minister. "This is privatisation of a magnitude and speed unprecedented in the west. It took the UK years to plan privatisation of water companies. We don't have that much time. Our economy can't wait that long."

On the slate this autumn alone are: oil and gas company Mol, the country's largest company; MVM, the electricity utility, which is being broken up and privatised as 14 units; and six gas distribution companies. The deadline for offers for 50 per cent stakes in the five regional GDCs was November 20 while offers for MVM companies are due by November 30.

An international private placement for 25 per cent of Mol, expected to fetch from $210m to $270m, is in the market at present and will be followed by a domestic offering. Global co-ordinators Merrill Lynch, Lazard and Kleinwort Benson are due to announce the price for the international offering on November 21.

The sale, which follows the recent flotation of two other large companies, OTP, the national savings bank, and Richter Gedeon, the pharmaceutical company, will be a welcome boost for the Budapest stock exchange. Although the oldest exchange in the region, it remains small and relatively illiquid with just 42 traded companies and total market capitalisation of around $1.6bn, about four per cent of GDP. This compares with more than 1,700 companies and a market capitalisation of around $15bn, about one third of GDP, on the Prague bourse.

If successful, the energy sector sales will brighten up an otherwise disappointing year for privatisation which had been expected to provide the state with Ft150bn ($1.13bn) in extra revenues.

By the end of September shares in just 143 mainly small companies had been sold for a total of Ft40.45bn ($304m), not enough to cover Ft54.7bn in costs incurred by APV Rt, the new privatisation body.

The pace of privatisation – which slowed considerably last year due to two rounds of elections and a change of government – ground to a virtual halt in the first months of this year. A new privatisation bill due to be passed last autumn got bogged down in parliament and did not become law until May, holding up the merger of the two privatisation bodies into a new body, the APV Rt...

Foreign investor confidence plummeted after the cancellation of the sale of the Hungar Hotel chain, which apart from an offering for 33 per cent of Richter Gedeon was the only large privatisation attempted in the government's first six months in office.

The government had agreed a strategy for utility privatisation last November and the first sales were due in the first half of this year but tenders were delayed by disputes over whether majority stakes should be sold in the first phase. Utility privatisation got back on track in June with the dismissal of Mr Laszlo Pal, trade and industry minister, who opposed it in the cabinet. Mr Pal, a Socialist MP on the left of the party, was subsequently appointed chairman of Mol.

> One opinion poll found that more than 80% of Hungarians opposed the sale of energy companies to foreigners

Opposition to the privatisation of utilities, however, remains strong. One opinion poll found that more than 80 per cent of Hungarians were opposed to the sale of energy companies to foreigners. There is also resistance from high level government officials, trade unions and local authorities, some of whom have claims on companies' assets, says Mr Peter Mihalyi, chief economist at APV Rt.

He says the government's attempt to privatise the energy sector is "courageous" and reflects a fundamentally different concept to privatisation than the approach taken by the former conservative government which intended to keep many strategic companies in long-term majority state ownership.

He adds, however, that contrary to popular belief privatisation in Hungary has, in many senses, become harder rather than easier.

"Most of what we now have left to sell is the hard core of the old socialist system – the utilities, banks and some large industrial companies in, for example, chemicals or aluminium. This hard core is damned difficult to privatise," be says.

Where Hungary has an advantage over most other countries in the former East bloc is that privatisation started early and its benefits are now very clear. Rather than opting for voucher privatisation and the free transfer of companies to the population, Hungary, like the Treuhand in former east Germany, opted for case by case privatisation with the emphasis on sales to strategic partners.

The sale of former state companies to private investors – such as the purchase of light bulb manufacturer Tungsram by General Electric of the US – has resulted in large scale foreign investment on top of initial privatisation revenues. Private management has led to painful restructuring. But the surges in exports and productivity of the past two years, generated mainly by the private sector, have underlined to many in the Socialist party the importance of selling off remaining state companies as soon as possible.

■ **CASE STUDY: Graboplast** by Virginia Marsh

A hungry phoenix

This successfully privatised company is looking for others to buy and manage

Graboplast, Hungary's leading artificial leather, floor covering and wallpaper manufacturer, is one of a growing band of acquisitive, profitable former state-owned companies whose entrepreneurial managers are looking for ailing enterprises to turn around. Having successfully revived their own former loss-making companies they have gained experience and confidence to apply their new skills to turning around others.

"Hungarian managers at companies like Graboplast are looking around and saying: 'What can we buy? We've restructured our company, let's do the same thing somewhere else'." says Mr Andras Simor, managing director of Creditanstalt Securities Budapest.

This year, Graboplast, one of the star performers on the Budapest Stock Exchange, has bought two other enterprises to add to its two existing production units. It main activity is producing artificial leather and internal decorations; its second unit makes non woven material.

The company celebrated its 90th anniversary this month. It was founded in 1905 by the Grab brothers who developed an artificial leather and textiles business in the then Austro-Hungarian empire from their headquarters near Prague.

They based their Hungarian manufacturing operations in Gyor, a city in the Kisalfold, the small plain, on the main western transit route out of Hungary, halfway between Vienna and Budapest.

Today's company, which occupies the same sprawling site near the city centre, was formed as a joint venture with Creditanstalt in 1990. After being restructured in 1992 and 1993 it was floated on the Budapest Stock Exchange. It is now 19.8 per cent owned by management with a further 30-40 per cent held by foreign institutional investors including the European Bank for Reconstruction and Development which recently acquired a 9.2 per cent stake. The balance is held by local investors. From January Graboplast will function as a holding company with four subsidiaries.

The company, together with its two new acquisitions, a carpet factory and a textiles manufacturer, expects total sales of around Ft12.6bn ($95m) this year and pre-tax profit of over Ft500m. Of this, Graboplast's two production units expect to provide Ft9.0bn in sales and pre-tax profits of Ft485m, up from Ft5.4bn and Ft399m respectively last year. Just Aover half of the units' sales came from exports, mainly to western European markets.

> The company is reaping the benefits of reorganisation

The company is reaping the benefits of reorganisation three years ago when it took the strategic decision to concentrate more on internal decorations than on artificial leather which had been its core business, says Mr Tibor Bori, finance director. Mr Bori joined the company in 1988 as part of a new management team, then with an average age of 33-35, most of whom are still at the company.

Artificial leather, much of it exported to Germany in the form of belts and trimmings for clothes, now accounts for around 30 per cent of the core company's production, down from 60 per cent three years ago. Wallpaper and floor coverings now account for 65 per cent of output and much of the new demand comes from eastern Europe and Russia – where Graboplast was strong under communism.

The company's strategic aim is to be "Number One in eastern Europe", Mr Bori says. It is stepping up its sales drive in a region which will account for around 40 per cent of sales from the core company this year. Graboplast already has representatives in the Czech Republic, Slovakia, Poland and Russia and next year plans to add Romania and reopen its Moscow office.

It also intends to purchase a wallpaper factory next year, possibly in Poland, and is considering investment in a parquet factory in 1997, according to Mr Peter Jancso, chief executive.

In the meantime, the company is working on restructuring plans for Unicontext which it bought last month from Magyar Hitel Bank which is selling off many of its assets. The company which produces bed covers, table clothes and other fine textiles, represents a "real opportunity for us", says Mr Bori, pointing out of the window to the newly acquired factory next door.

With the help of management consultants, Graboplast this year restructured Sotex, a carpet factory, which had been close to bankruptcy. It reduced the labour force by 40 per cent to 390, rescheduled the company's debts and appointed new management. Mr Bori says Sotex, which produces both carpets and floor tiles, will benefit from a "marketing synergy" with Graboplast's internal decorations division and also exports into eastern Europe. He hopes the company will produce a Ft50m pre-tax profit next year after expected losses of Ft18m this year.

For Mr Bori, Graboplast is a "perfect example" of the positive effect of the Bokros package on business and says that the March measures, including a hefty devaluation and import surcharges, have encouraged the company to shift resources to exports. "The package is forcing us to restructure sales," he says. "Our domestic sales are in trouble. With the cuts in real wages, people can't afford to buy as much at the moment. What we like about the package is that it supports exports. In this sense it has definitely helped."

Big shake-up at the banks

Continued from facing page

also sacked about 800 staff, including around 150 directors and heads of departments. He intends to reduce the number of employees to 2,500 from the present 3,400 by the middle of next year.

"The previous management accepted the restructuring plan but in fact never implemented it," be says.

Until now most Hungarian banks have concentrated on corporate customers: "This is still a cash society. Most Hungarians are underbanked and an electronic retail bank is something which barely exists at the moment. "We expect a lot of growth in this area. That's why this bank has a future," Mr Jarai believes.

Others in the banking sector, however, believe many state banks are "unsellable" and that their importance will continue to decline as private and foreign banks expand. "They will become aven smaller and disappear into oblivion," predicts a local investment banker.

PROFILE Magyar Hitel Bank (MHB)

Executives purged

When Mr Zsigmond Jarai took over as chief executive of Magyar Hitel Bank (MHB), one of Hungary's largest and most troubled state banks, in March, there were no fewer than 171 directors or department heads.

"I told them they were all sacked and that, in future, there would be only 45 directors and that they could all compete for these jobs. We rehired around 25," says Mr Jarai, who came to MHB from HongKong Shanghai Bank.

One of Hungary's most respected bankers, Mr Jarai previously worked at Budapest Bank and at the finance ministry as banking commissioner in the last communist era government in 1989-1990. He was persuaded to take on MHB by Mr Laszlo Bekesi, the former finance minister, and is being paid the minimum wage of Ft12,200 a month. His reward will come from the rising value of share options if he succeeds in turning around the bank.

Despite being one of the main beneficiaries of the government's $3bn bank bail-out three years ago, MHB made losses of around Ft3bn last year and is losing market share to the many new private and foreign banks operating locally. "Wa have to cut costs, reduce labour, sell assets, reorganise procedures and set up a new bank," Mr Jarai says.

In just eight months, he has reduced the total workforce to 3,400 from 4,200 and plans to lay off a further 300 by the end of the year. He has also begun to move branches into smaller buildings and to sell off the bank's equity stakes in local companies, many of them acquired through debt-for-equity swaps.

More importantly, the "bad bank" has bean separated from the "good bank" and a start has been made on redrafting lending manuals and introducing new technology. "In the past, the internal structure was not changed and the same people were left lending to enterprises. If 50 per cent of the assets are bad, then something has to be wrong," be says.

The valua in the restructured bank lies in its network of around 90 branches and a client list which includes some of Hungary's biggest corporations – Mav, the state railways, Malev, the national airline, and Matav, the telecommunications operator.

Mr Jarai's aim is to create a modern electronic retail bank, something which barely exists in Hungary today. "Most Hungarians receive their salaries in cash and do their shopping and pay their bills with cash," he says.

"With the right systems, we could go to one of the big corporations and offer to do their payroll payments for them. This would give us thousands of customers immediately."

Mr Jarai admits that if GE Capital takes over the rival Budapest Bank, as expected, this would pose serious competition to MHB as GE Capital is likely to pursue a similar strategy.

"We know the local market better than they do and this would help us in the beginning. We also expect big growth in this area so there'll be room for three of four main players," he says.

Virginia Marsh

INTERVIEW Tamas Suchman

Supremo of the state sell-off

"Privatisation serves a long-term economic strategy," says Mr Tamas Suchman, the Socialist MP and former regional bank manager appointed privatisation minister earlier this year. He says one third of the workforce is employed by foreign-owned companies or joint ventures and that such companies generate more than 50 per cent of exports and 60-70 per cent of new employment.

"A great deal of capital is needed to modernise the energy sector to ensure the future. There is no alternative but to privatise. We have no other source of capital," he adds.

He expects an average of four to eight bids for each of the energy companies currently out to tender – around 80 bids from the 14 electricity companies and 50 to 60 for the gas distributors.

Prospective Western bidders say they have been given insufficient time to conduct due diligence and prepare offers as it is only six weeks since the tender documents were pnblisbed. They also complain about the number of regulatory uncertainties including an unclear long-term price formula, hinting this could depress bids. Mr Suchman counters that most energy sector bidders have been coming to Hungary for years and that many have offices in Budapest.

One of his main concerns in the run-up to privatisation is settling pay demands and ending a spate of industrial unrest especially in the electricity sector. "It is very important we have peace with the companies and the trade unions before privatisation. The foreign companies expect this."

He says APV Rt has worked out a system for evaluating offers and will be able to process bids and determine the winners in December. Given the regulatory uncertainties and the numerous companies involved, however, many expect the process to drag on well into next year.

> Given the uncertainties, many expect the process to drag on well into next year

Mr Lajos Bokros, finance minister, says he is not expecting revenues from the sales until the second or third quarter of next year due to the "many problems which first need to be solved". Among these he lists further adjustments to price and regulations, definition of the state's golden share and the bolding structures, and settlement of local government claims.

Virginia Marsh

4 HUNGARY

Foreign policy: by Anthony Robinson

Idealism rooted in history

National interests drive Hungary's passion for peace and unity in central Europe

Few people or governments care so passionately about minority rights as the Hungarians. This is not because they are unusually sensitive or idealistic. It stems from the 1920 Treaty of Trianon which turned millions of ethnic Hungarians into powerless minorities in neighbouring states after reducing Austria and Hungary to mere shadows of their former imperial splendour.

The transfer of Transylvania to Romania and the loss of a swathe of largely ethnic Hungarian populated land all around the borders of the post-Trianon Hungarian state was a bitter blow. It bedevilled central European politics in the interwar years and ensured that a revanchist Hungary came into the second world war as an ally of Nazi Germany.

That alliance enabled the right wing dictator Admiral Miklos Horthy to ride in triumph on a white horse at the head of an occupying Hungarian army through Kosice, the regional capital of eastern Slovakia while Hungarian troops later massacred Serbs in the largely ethnic-Hungarian Serbian province of Vojvodina.

When the tide of war turned, thousands of ethnic Hungarians were expelled from Slovakia in 1944-5 and Yugoslav partisans slaughtered Vojvodina Hungarians in revenge.

For 45 years such memories were smothered under the blanket of enforced "proletarian internationalism". But the re-birth of national sovereignty after 1989 revived old memories and underlined the need for democratically elected governments in the region to work out a new modus vivendi. At the same time, however, the possibility that Hungary and its neighbours would one day become members of the European Union opened up new perspectives for a solution to the old ethnic rivalries within a broader European framework of porous frontiers and respect for civil, political and other rights.

For these broader considerations, rather than merely for access to markets and investment, entry into the EU remains Hungary's top foreign policy objective. "We would like to be part of the first wave of enlargement, but in the company of as many of our neighbours as possible," says Mr Laszlo Kovacs, the foreign minister.

When the new government came to power last year it first set out to secure bilateral "basic treaties" with Slovakia and Romania which recognised existing frontiers, guaranteed and codified the rights of minorities – and to soothe the feathers ruffled by Mr Jozsef Antall, Hungary's first non-communist prime minister. The late Mr Antall declared after the 1990 elections that he considered himself to be spiritually responsible both for the 10m citizens of Hungary and the 5m people of the ethnic Hungarian diaspora.

The socialist-led coalition government reached a bilateral agreement with Mr Vladimir Meciar, the volatile Slovak prime minister in March, but this has yet to be ratified by the Slovak parliament. No agreement has yet been reached with Romania, where continuing disagreement over the concept of the collective rights of minorities as opposed to their individual, human rights, continues to block a deal.

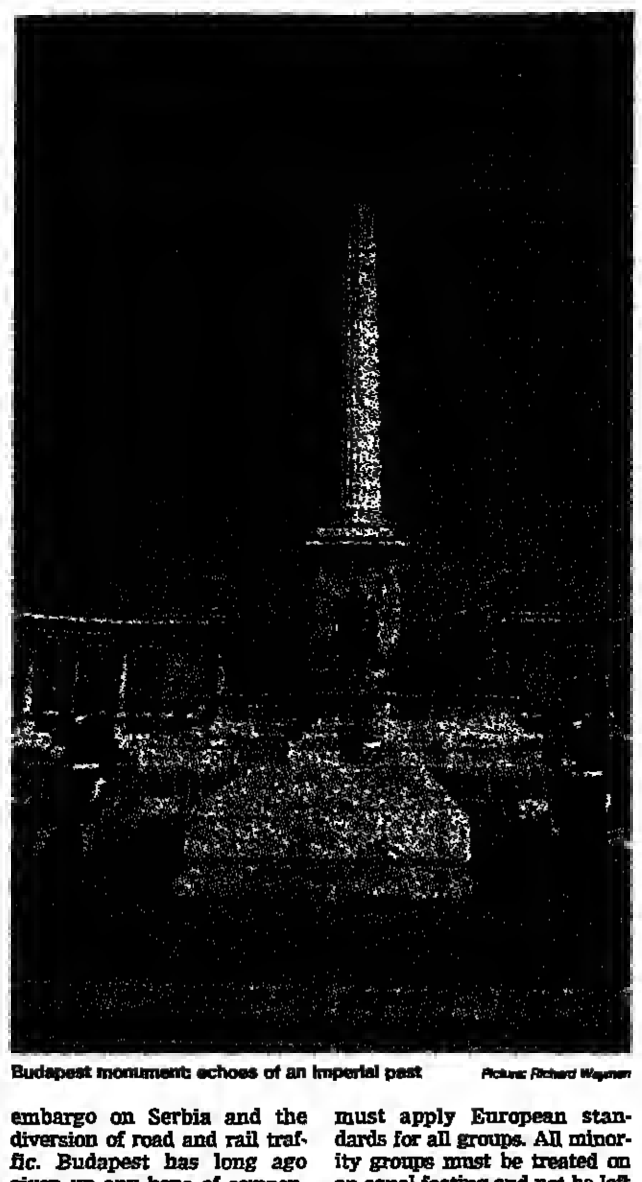
Meanwhile, Budapest is anxiously following the US-brokered peace negotiations between the warring former Yugoslav states and assessing the likely impact on Hungary's relations with neighbouring Croatia and Serbia.

Before the war nearly 500,000 ethnic Hungarians lived in villages along the Danube in Croatia and in the fertile plains of the Serbian province of Vojvodina. Thousands fled the fighting or slipped across the frontier to avoid military call-up. But hundreds of thousands still remain, mainly in Vojvodina where the delicate pre-war ethnic balance is threatened by the influx of Serb refugees expelled this summer from the Krajina regions of Croatia or displaced by earlier fighting in Croatia and Bosnia.

Mr Horn, the prime minister, who spent six years in Belgrade as a Hungarian diplomat in the 1960s, underlined Hungarian concerns when he met Mr Slobodan Milosevic, the Serbian president, on an official visit to the Serbian capital following the Croatian army's summer blitzkrieg.

The conflicts in former Yugoslavia have already cost Hungary an estimated $2bn in lost sales to its newly impoverished southern neighbours, the disruption of shipping along the Danube, the UN-imposed trade embargo on Serbia and the diversion of road and rail traffic. Budapest has long ago given up any hope of compensation but hopes that Hungarian enterprises would be able to play a useful and profitable role in assisting any post-war reconstruction.

But Mr Kovacs reflects Hungarian scepticism about the prospects for a lasting peace in former Yugoslavia without a determined effort by all the warring parties to tackle the underlying reasons for mistrust and commit themselves to respect and strengthen the human and civil rights of minorities after a new territorial agreement is reached. "We must apply European standards for all groups. All minority groups must be treated on an equal footing and not be left at the mercy of the respective majority groups," he says.



Budapest monument: echoes of an imperial past — Picture: Richard Wagman

CASE STUDY GE and Tungsram

Worthwhile investment

General Electric of the US did not wait for the fall of the Soviet Empire before deciding to make a big investment in Hungary.

In the late 1980s it had made the strategic decision to build a world-class lighting company and was seeking a European base. Hungary's state-owned Tungsram company was up for sale and seemed a promising target on several counts:

- it had respectable market penetration in western Europe;
- 35 per cent of its business was with other Comecon countries;
- its network of factories had a reputation for high quality and high skill levels.

In January 1990, GE paid $150m for 50 per cent plus one share of the company and management control. It seemed reasonable at a time when few suspected that the 450m strong former Comecon market, to which Hungary belonged, would simply implode and few, outside a handful of experienced traders in the region, had realistic views on the difficulties and additional costs involved in trying to graft western methods on to socialist-era enterprises.

But in 1992, the company lost $105m and Magyar Hitel Bank (Hungarian Credit Bank), Tungsram's largest minority shareholder, was incapable of funding the losses and subscribing to the required injection of new capital.

Today, nearly six years after buying the company and after spending around $700m, including $300m on new plant and equipment, Mr Chuck Pieper, GE Lighting Europe's chief executive officer, says "we are delighted with our investment" in what is now a wholly owned GE subsidiary.

Turnover has risen 75 per cent since 1990, despite the collapse of sales to former Comecon countries and the unexpected problems caused by the impact of high domestic inflation and effective revaluation of the forint on a company which exports 90 per cent of its output.

The key to the company's performance lies in "double digit productivity gains for each of the last five years," says Mr Pieper. The labour force, 18,000 at the time of GE's entry into the company, is now down to around 10,000, despite the transfer to its seven Hungarian plants of roughly 1,000 jobs formerly filled at other GE Lighting group factories, including those of Thorn Lighting of the UK which GE took over in 1991.

For GE and other export-oriented companies the "Bokros package", which was specifically designed to improve the export competitiveness of Hungarian-based companies, provided a welcome opportunity to capitalise on efficiency gains and heavy past investment.

"Hungary is now doing the right thing, working on competitiveness, and not trying to spend more than it saves," says Mr Pieper. But he insists that the crawling peg devaluation mechanism, which will cut the rate of forint devaluation in line with the expected decline in domestic inflation, will force companies to continue to raise productivity and efficiency and not rely on the one-off boost provided by the 20 per cent drop in the forint's external value over the first six months of the year.

"Three years ago we were faced with a choice – either slow down the rate of change and investment in the face of high inflation and bureaucratic difficulties or speed up change and the search for higher productivity and efficiency. We opted to go faster, and it was the right decision. Here if you go slow you get eaten by ducks – the bureaucrats eat you up in bits."

For GE, Hungary has become a centre for the research and development effort which has led to the design of a series of new low energy, long life lamps which are being produced in the sprawling former Tungsram plant at Nagykanizsa, in south western Hungary close to the border with Croatia.

The new range of compact fluorescent lamps is turned out in a custom built $30m plant for export to world markets. But the bulk of output still consists of conventional lightbulbs.

With fierce competition in the global lighting market from Osram, the lighting division of Siemens of Germany, and the Dutch-based Philips group which has invested heavily in Poland, GE is counting on its seven Hungarian plants to help it keep in the game.

Anthony Robinson

Politics: by Anthony Robinson and Virginia Marsh

Extremism kept at bay

For all their grumbling, most Hungarians prefer conservatives to fanatics

The inexperleoced, non-socialist politicians from the Hungarian Democratic Forum and the Christian Democrats, who replaced Hungary's reform communists after the 1990 elections, were labelled as right-wingers, and accused of indifference to the plight of the workers.

They liberalieed foreign trade, got privatisation under way and set up many of the institutions of a market economy.

But they also presided over an unsustainable rise in the cost of Hungary's bloated and inefficient welfare state which they felt politically too insecure to touch.

Wheo the former communists, now re-packaged as Social Democrats under the leadership of Mr Gyula Horn, the former foreign minister, returned to power after the May 1994 elections, they pledged to complete the transition to a market economy but make it less painful for those at the bottom of the social beap. It is a promise they are having much trouble honouring.

The Socialist Party has a strong traditiooal wing linked to the trade unions. Its desire to ensure that privatisation revenues were channelled into social security fuodlog schemes, and continuing belief in a socialist governmeot's ability to pull powerful economic levers and defy the impersonal pressures exerted by global markets, delayed privatisation and led to the resignation of Mr Laszlo Bekesi, the monetarist finance minister.

But in March this year, faced with clear evidence that both the current account of the balance of payments and the budget deficit were out of control and threatening a financial melt-down, Mr Horn was forced to call on the services of two non-socialist party bankers ready to draw up balanced budgets, impose fiscal and monetary discipline and present Hungarians with a stiff dose of financial reality.

Mr Horn, strongly defends his new policies. "I am accused of pursuing very right-wing policies. These are not right wing policies, they are realistic policies. We have to pursue them. If we don't no one will be able to save Hungary. This is the reality. there is no alternative," he says.

Ecooomically the March package appears to be working. By 1997 the results should be clear to all. By the time elections come around again in 1998 the electorate may be prepared to admit that the gain was worth the pain. But not yet.

At present the electorate is feeling sorry for itself and the Socialist Party, which tripled its support to win 33 per cent of the votes and 54 per cent of the seats in last year's elections, is deeply unpopular. The Free Democrat party, the second largest party, which swallowed its ideological objections and agreed to form a coalition government with the Socialists last July, has also lost ground. But together the coalition parties control 72 per cent of seats in parliament and can ride out temporary unpopularity.

The polls meanwhile sbow that the populist, anti-socialist tirades from Mr Jozsef Torgyan, leader of the smallholders party, are what Hungarians like to listen to now. The party has traditionally been based in a countryside which over the last five years has been confused and hurt by the loss of Soviet bloc markets and the disintegration of the old co-operatives. Now it has a following in the disgruntled cities as well. For all their grumbling, however, Hungarians do not vote for extremists, notes Mr Tibor Vidos, a political consultant. The right wing nationalists led by Mr Istvan Csurka found this to their cost at the last elections. Instead Hungarians tend to be conservative, middle of the road voters.

That is why they voted Socialist at the last elections, and also why the Federation of Young Democrats, the youth party led by Mr Viktor Orban, failed to make what it hoped would be a leap into the big league. Mr Orban, an engaging and thoughtful 32 year-old, hoped to emulate Spain's Felipe Gonzalez and leapfrog the generation brought up under a totalitarian regime. The electorate perceived him as too young and his party as too inexperienced. Now he is trying to put together a liberal-right wing alternative to the Socialists by strengthening ties with the Christian Democrats and the Hungarian Democratic Forum. It is proving an uphill struggle, but he is not discouraged.

"Only around 25-30 per cent of the population are committed to particular parties. The fight is still on for around 60 per ceot of the vote," he says. Mr Vidos agrees. "There is no established electoral behaviour. Hungarian politics will only take oo a recognisable shape if privatisation is completed by the time of the 1998 elections" he argues. Time will tell, but three years is a long time in politics.